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Relative Strength of the Pound and the Dollar

By R. G. Hawtrey

THE terms "strong" or "weak" applied to a money unit are metaphorical, and the conceptions which they represent are far from simple. Yet they are freely used in practical affairs, and the best way to elucidate their meaning is to examine how they are and have been applied. The strength of the pound sterling in the period preceding 1914 has become proverbial. The strength of the dollar since 1939 has been universally recognised.

The money market crisis which accompanied the outbreak of war in August, 1914, revealed a cross section of the very complex financial processes then in operation. It was the era of the world-wide fame of the bill on London.

In the 18th century the practice grew up of exporters obtaining payment from importers by drawing bills upon them. An exporter however does not want to tie up his money for three or six months waiting for the maturity of a bill; he wants to have it available for fresh business as soon as his goods are disposed of. He needs some mechanism for getting bills on foreign centres discounted. A banker who buys a bill on a foreign centre must have a correspondent or agent at the foreign centre to present the bill, first for acceptance, and then for payment. International banking business grew out of international mercantile business.

It was worth while for a big merchant to set up the requisite agencies for handling bills in the countries he traded with, and it was convenient for smaller merchants to obtain facilities through him for dealing with their bills. British merchants had long held an important position in the world's trade, and in the nineteenth century British colonial expansion, British sea-power and British manufacturing enterprise combined to give them a conspicuous predominance. A very large part of the materials and foodstuffs entering into international trade were sold in British markets, either for consumption in Great Britain or for re-export elsewhere. And goods destined for importation into foreign countries, without ever passing through British hands, could be financed through London, provided the importers were in business relations with London merchant bankers or banks. The exporter would draw a bill on London instead of on the

importer, and the importer would agree with the London acceptor to provide the money to pay off the bill at maturity.

The London money market was often described as the clearing house of international trade. But a clearing house is no more than an administrative mechanism. The function of London in international trade was more fundamental. Sterling bills had become a convenient medium of credit and payment because the leading commodity markets of the world were in Great Britain. Goods were *priced* in pounds sterling, and bargains concluded and valuations made by importers and exporters in other countries were in terms of pounds sterling. Every country had its own markets in whatever goods it exported or imported, but the British markets were relied on to absorb any uncovered residue of purchases or sales in other markets at a competitive price. Merchandise could be reckoned on as potential sterling, and afforded collateral for a sterling liability.

Exporters all over the world were constantly acquiring sterling in the form of bills on London, and importers all over the world needed sterling, some to pay British exporters, others to meet maturities of bills accepted in London on their behalf. There was at all times a vast pool of sterling, composed of the current balances of those who had sterling payments to make, and forming the basis of the foreign exchange markets of the world.

The international functions of the pound sterling essentially required it to be a stable medium, a requirement sufficiently fulfilled by the gold standard. The wealth value of gold was not perfectly stable ; it was tied to the pound sterling by the gold parity or coinage price, and it became the business of the Bank of England so to regulate credit that the world's demand for monetary gold would always leave a sufficient amount in reserve to ensure the convertibility of sterling at the prescribed parity. Fluctuations in the wealth value of sterling (and therefore of gold) were kept within limits.

The pool of sterling was always being drawn upon to meet the maturing bills and other sterling obligations due from abroad, and was replenished by fresh borrowing. The Bank of England, when faced with a loss of gold, would give the signal by a rise of Bank rate for a general restriction of lending by London. An excess of repayments over new lending took shape in a favourable balance and an inflow of gold.

The most notable evidence of the strength of sterling was the small amount of gold reserve with which the Bank of England was able to carry on.

The foundation of the system was the mercantile community, though undoubtedly the predominance of British manufacturing power from the outset of the industrial revolution up to about 1870 had been a powerful contributory factor. British external investment, which in 1914 was adding more than ever to a vast accumulated total, was both a symptom and a source of strength.

All this time the United States dollar was functioning as the monetary medium of a rapidly growing community, engaged in vigorously developing the resources of a marvellously endowed continent. The dollar was the medium of payment for American products, and there were of course organised markets in exportable products in the United States. But these markets were no more than fe s of the world markets, which, being concentrated in Great Britain, made world prices in terms of sterling.

Moreover the financial and monetary institutions of the United States reflected the subordinate position of American markets. Till 1914 there was no American central

bank or equivalent institution to regulate credit. From time to time over-expansion brought shortage of cash reserves, and acute financial crises paralysed the banking system. When the greenback period was followed by the free silver agitation, there could be no confidence in the maintenance of the gold value of the dollar.

It would not be true to say that the dollar was a weak currency (especially after 1900) but it had no better claims than those of continental Europe to be a rival of sterling.

The first World War brought a change. The year 1919 saw sterling divorced from gold and substantially depreciated. The United States, first as a neutral, then as the principal supplier of its co-belligerents, had absorbed most of the gold which issues of paper currency displaced from circulation in Great Britain and Europe. The violent alternations of inflation and deflation which followed left the United States with a disproportionate holding of the world's supply of monetary gold. That condition continued after the general restoration of the gold standard in 1925–8, and indeed ever since. The Federal Reserve system had equipped the United States with the credit mechanism of a central bank, and this mechanism was supported by a more than ample gold reserve. An attempt was made to acclimatise in New York an imitation of the London credit apparatus, with its discount market, acceptances and Bank rate But without the support of a community of highly developed international markets, such as had long flourished in Great Britain, it failed to take root or to acquire vitality.

The monetary confusion which prevailed in the years 1919 to 1925 caused a serious set-back to the London credit system. A trader who is importing goods has to sell them for the money of his own country, but his calculations would not be seriously upset by fluctuations in the sterling equivalent of the money unit, so long as the sterling prices of the goods were accepted as the basis of market quotations in the importing country. But, when sterling prices became the sport of monetary disturbances in Great Britain itself, as in the inflationary rise of 1919–20 and the deflationary collapse of prices in 1920–22, there was no longer any reason to prefer pricing in sterling to pricing in other money units.

The restoration of the gold standard in Great Britain and in most of the rest of the world in the years 1925–8 removed this obstacle from the functioning of London as an international centre. But the crises of 1929–31 brought the gold standard once more to shipwreck.

The pressure of deflation in the United States and Great Britain caused a heavy fall in prices reckoned in gold. In every country that adhered to the gold standard prices became unremunerative; bankruptcies, bank suspensions, unemployment supervened. The suspension of the gold standard in Great Britain and many other countries in 1931 was followed by the same step in the United States in 1933. But the result was not to weaken either the pound or the dollar. The fall in prices had really meant a rise in the wealth-value of gold. When the pound and the dollar cut loose from gold, British prices and American prices recovered in some degree, and these money units may be said to have been less unstable than gold.

Great Britain's suspension of the gold standard in 1931 may be regarded as the true origin of the sterling area. The sterling area was composed of those countries which had been accustomed to hold their monetary reserves in the form of sterling securities and sterling balances in London, with or without some gold, and which, when sterling

parted company with gold, decided to maintain sterling reserves in preference to gold reserves. Their money units were not irrevocably tied to fixed sterling parities, but in practice they tended to follow sterling, and for them the credit machinery based on London could still operate.

In the world outside the United States and the sterling area the extreme depression of the nineteen-thirties induced a general resort to import restrictions or exchange controls or both. Under the influence of these restraints and of political uncertainties, a mass of fugitive money took refuge in London and New York. The British and American gold reserves grew rapidly, the British rising from 38½ million ounces in 1931 to 120 million in March, 1938.

But the successive crises in which Hitler involved Europe from then till the outbreak of war in September, 1939, soon disqualified London as a refuge. Half the accumulation of gold departed. The rate of exchange fell from $5 to $4.68, and at the outbreak of war was reduced to $4.03.

The adoption of exchange control throughout the sterling area in September, 1939, definitely placed the pound sterling for the time among the weak currencies.

Upon the well worn theme of the inflationary effects of war finance it is not necessary to dwell. In both Great Britain and the United States vast sums had to be raised by borrowing from the banks, and therefore by adding to the supply of money, and price controls, along with rationing and other controls restricting expenditure, were relied on to prevent the additional money from depleting supplies and driving up prices.

The policy of suppressing inflation by controls met with partial success. When the war came to an end, the wage-level in Great Britain had risen by about 50 per cent., an increase that is to be counted as moderate in relation to the vast mass of loose money created during the war. But this money was still there. People had been prevented from spending, but they had in hand money equivalent to the arrears of spending which had been forced upon them: not only currency and bank deposits, but Government securities, for the most part of short or medium term, which were readily realisable.

This accumulated spending power was additional to the current spending power generated by production; any portion of it let loose would either have to be satisfied with some supplies other than those of current production, that is to say, from stocks of goods, or from imports, or would be absorbed in a rise of prices, and suppressed inflation would make way for active inflation after all.

So long as controls prevented the rise of prices, the pressure of demand on supplies was so much the greater. Other wartime controls were therefore continued in order to restrict spending. Rationing and the licensing of capital outlay only covered a part of the ground. For the rest supplies for home consumption were limited, partly by the export drive which required manufacturers, as a condition of receiving the materials they needed, to export a specified part of their output; partly by quantitative restriction of imports. The limitation of supplies intensified the demand for so much as was available. And producers, loaded up with orders beyond their productive capacity, were involved in longer and longer delay in delivery of goods ordered.

Till the summer of 1946 the United States was pursuing the same policy of suppressing inflation by controls. But in that year price controls were abandoned. The American price level and wage level thereupon entered upon a process of adjustment

to the supply of money. Suppressed inflation made way for active inflation, but active inflation (apart from fresh creations of money) reached its limit. The process occupied two years. By August, 1948, it was completed, and for the time being there was no further inflationary tendency in the United States. American industry was no longer over-loaded with orders.

At that time the world depended mainly on British and American industry as exporters of manufactured goods. Germany and Japan were still prostrate, and the recovery of the other industrial nations was incomplete. Pounds and dollars were the means of purchasing British and American products. But the pound laboured under the disadvantage that British manufacturers, if willing to take additional orders at all, could only promise delivery at distant dates, while American manufacturers, being under-employed, could take any orders offering and could guarantee prompt delivery.

Along with the accumulation of loose money by which demand was intensified at home, inflationary finance had also generated a portentous amount of externally held sterling, which the holders had received by way of payment for goods delivered or services rendered during the war, and which they had not had opportunities to spend. To hold up this accumulated spending power, exchange control was continued in force.

Exchange control allowed the sterling balances held in a country outside the sterling area and the dollar area only to be spent on that country's current payments to the sterling area (on imports, etc.). Sterling balances held in the sterling area could only be spent outside the sterling area on permitted imports or other permitted purposes.

Exchange control was originally imposed in 1939 to preserve British monetary reserves and external assets from being dissipated on objects other than the war effort. Import restrictions limited payments for goods, and exchange control supplemented them by restricting external payments for all other purposes. The externally held sterling balances were composed of British wartime disbursements which were thus tied up.

When the war was over, the accumulations of sterling, whether held in Great Britain, in the rest of the sterling area or abroad, could not be freed from control. Apart from the small fraction of it which British stocks and British productive capacity could satisfy, the pressure to spend would have been directed abroad ; British monetary reserves would have been exhausted in a moment, and the foreign exchange market would have collapsed.

The external resources which exchange control had been instituted to preserve had been long ago used up, and in their place the war had left this formidable external liability, a huge floating indebtedness reckoned in sterling.

I have referred to exchange control as placing sterling among the weak currencies. Economic weakness consists not in impoverishment itself, but in an insufficiency of a country's resources for the policies or undertakings imposed on it. The weakness of sterling has been due to too much spending—the excess demand, which has overloaded British industry with orders and involved exporters in long-delayed deliveries, and which has constantly tended to attract excess imports and cause an adverse balance of payments.

The excess spending has only been possible because people have had the money to spend, money, that is, in excess of the essential working balances which they would need if they were spending no more than their current incomes.

In the United States superfluous money had been allowed to work its full effect in raising prices. By 1949 the flow of money had so expanded that the quantity of money was little if at all in excess of working balances. The British price level had not been unaffected by the rise in the American price level, but the rise had been much less than in proportion. The over-employment due to redundant money was still operative, and dollars were everywhere preferred to pounds because American manufacturers could promise prompt deliveries.

It was in virtue of the preference so caused that the dollar was reputed strong and the pound weak. There were people all over the world, who held sterling and who were anxious to use their money to procure goods. If they spent it in the form of sterling on British products they would have to wait; if they could convert it into dollars, and spend it on American products, they could hope for early supplies.

It was because sterling was subject to this weakness that the continuance of exchange control was necessary. Without it holders of sterling would have shown their preference by transforming all the sterling they could spare into dollars.

The devaluation of 1949 was due to a misconception. The weakness of sterling was supposed to be due to high costs of production in the British export industries. In reality the weakness was due to the over-employment of the export industries. Relatively to the demand in export markets costs were rather too low than too high. Devaluation aggravated the trouble, since it made the demand expressed in foreign money units (so far as they were not also devalued) all the greater in terms of sterling. But devaluation was not without its advantages. It reduced at a stroke by 30 per cent. the gold or dollar value of the externally held sterling balances. And it set in motion a new inflationary tendency which might be expected eventually to correct the disparity between the flow of money and the stock of money, following the example set by the United States in the years 1946–8. The flow of money in Great Britain, as measured by the gross national product, has risen by 35 per cent. since 1949.

While the remnant of war-time controls (except exchange control) has been coming to an end, the expansion of the flow of money has been retarded by the prevailing view that increases of wages are contrary to public policy. To give full effect to devaluation as a factor expanding the flow of money, an increase of values expressed in money by 44 per cent. would have been required. The actual increase in the wage-level since 1949 has been only 27½ per cent. But after 1949 there was a resumption of inflation in the United States and the rise in the wage level and price level in Great Britain was very little more than was necessary to keep pace with the rise in the United States.

So even now the pound remains heavily undervalued in terms of the dollar. The policy of suppressed inflation, though no longer enforced by formal price controls, is still at work.

The progress of inflation in the United States is marked every now and then by a pause. Such a pause became the occasion for the British devaluation in 1949. Another pause has occurred during the past six months.

The demand for materials for use in American industry forms a very large proportion of the world demand, so that a set-back in American industrial activity causes a substantial falling-off in the world demand for materials. A great part of the exports of the oversea sterling area consists of materials, such as rubber, tin, wool, jute, etc., and

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a decline in the American demand for these has an adverse effect on the sterling area's balance of payments. In 1949 this was felt as a serious embarrassment of the British monetary position, and became the occasion of devaluation. In 1954 the oversea sterling area, having enjoyed exceptional prosperity in 1950–1 from the abnormally high prices of materials, has been able to exercise sufficient control over its imports to avoid a repetition of the trouble of 1949 when the proceeds of its exports fell off.

For Great Britain itself, apart from the rest of the sterling area, the fall in prices of materials has been a source of strength. It has meant favourable terms of trade. The immediate impact of devaluation on the balance of payments was adverse, because it caused British exports to be sold too cheap: the terms of trade became unfavourable. This tendency was accentuated by the rise in prices of materials following on the outbreak of the Korean War. The subsequent fall in the prices of materials has for the moment brought back the terms of trade nearly to the ratio prevailing before devaluation.

A favourable balance of payments has resulted, and British monetary reserves have been increasing. The favourable tendency has latterly been helped by a speculative movement in favour of sterling. Sterling has become stronger, but it would not be safe to conclude that the time has come to make sterling freely convertible into dollars. The over-employment of British industry still persists. Unemployment is at an abnormally low level, and complaints continue to be heard of delay in deliveries, and of the loss of export orders because manufacturers already have too much work in hand. The same American recession that cheapens materials and favours our terms of trade makes for the prompt execution of export orders by under-employed American manufacturers. American competition, along with the revival of German and Japanese export trade, might be expected eventually to diminish the pressure of demand upon the British exporters. But the devaluation of sterling still makes British costs abnormally low.

It is a paradox that the low costs and competitive advantage of British exporters actually work to the disadvantage of sterling. But, once low costs have brought about full employment, the competitive advantage is exhausted. The pound is weak because it does not buy such ready supplies as the dollar. The weakness can be remedied either by an expansion of the flow of money or by a contraction of the volume of money.

The expansion of the flow of money might theoretically be brought about by a general rise of prices, without any corresponding rise of wages. But so far as manufactures are concerned, the prices quoted by the manufacturers are ordinarily based on costs *plus* a reasonable or conventional margin of profit, so that any lag in the rise of wages is reflected in prices. The disequilibrium that has to be corrected is due to a low wage-level, low relatively to foreign costs of production, and low relatively to the volume of demand from at home and abroad. The official view of wage policy appears to ignore this aspect altogether: it discourages all increases of wages, partly through a misguided fear that the costs of the export industries are becoming too high; partly because the resulting rise of prices has undesirable social repercussions. Yet the devalued rate of exchange commits us to the rise of the price level. And the weakness of the balance of payments is due not to high costs but to abnormally low costs.

Does this mean that the way should be opened to a more rapid rise of wages? No. For there is the alternative of a monetary contraction. The principal instrument of monetary contraction is tight credit. It is through bank advances that money is

generated, and, if borrowing from the banks is discouraged, less money is created. The volume of money can be diminished by a reduction in bank advances, and when Bank rate was put up to 4 per cent. in March, 1952, there ensued a decline of bank advances from £1,946 million to £1,798 million a year later. Unfortunately the financial burden of rearmament started a renewal of inflation, and the reduction of advances was more than offset by increased holdings of Treasury bills and Government securities, so that bank deposits have actually been increasing. An essential condition of a monetary contraction is a cessation of inflationary Government finance. Not that heavier taxation is necessarily required, but funds required for the capital outlay of public authorities should be raised by the issue of securities which appeal to the investor, not such as to be taken up by the banks.

Given that prerequisite, a monetary contraction, enforced by tight credit, could put an end to the overspending which is the true cause of the weakness of sterling. Spending in excess of income presupposes a supply of money, either accumulated balances or new money created by the banks. If the supply of money is sufficiently restricted, the overspending will be checked, and the excessive demand which causes the over-employment of industry will be relaxed.

What is required is to eliminate the excess supply of money. But it is not to be supposed that the efficacy of tight credit is deduced from the quantity theory of money. A decrease in the quantity of money does not necessarily cause a proportional decrease in the flow of money and the price level. But tight credit operates directly on the motives of those contemplating the purchase of goods with borrowed money. It first causes a decline in the orders given for new supplies of goods, and the contraction in the actual quantity of money is a consequence of the diminished amount of borrowing.

It is overspending that causes an adverse balance of payments. Overspending once stopped, it will no longer be necessary to support the balance of payments by import restrictions. And exchange control, since it is only needed to supplement import restrictions, could be dispensed with. If dollars no longer gave access to more ready supplies than pounds, precautions against a flight from pounds to dollars would no longer be necessary.

If the pound is to remain undervalued, a monetary contraction will not prevent the further rise of wages and prices. Under-valuation exaggerates the sterling equivalent of a given foreign demand, and leads the exporting industries to compete for labour in order to extend their output. Wage demands are pressed and conceded because employers can afford to allow them. But the monetary contraction, even if it fails to prevent the rise of wages and prices in conformity with the rate of exchange, will prevent the overspending at home, which causes an adverse balance of payments: it will eliminate the weakness of sterling.

The dollar will, no doubt, continue to be the equivalent of gold, for the American gold reserve of 20,000 tons is practically inexhaustible. But the dollar is a unit of fluctuating wealth-value, and carries gold with it in its vagaries. It would be possible by a suitable credit policy to make the pound sterling a pre-eminently stable unit, better fitted than ever to fulfil its time-honoured function as an international money.

The British mercantile enterprise, with all its experience and skill, is ready to play its part, and the great British commodity markets are being restored to activity.

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A Commodity-Based Currency

By Colin Clark

WE do not know who were the makers of our proverbs, or at what remote date they lived. But they must have been unusual men, of vivid imagination. Some of the strangest of Breughel's paintings show Flemish peasants illustrating by their extraordinary actions all the principal proverbs of their language, which are very similar to ours. But the man who thought about the proverb on " killing two birds with one stone " must have had the oddest imagination of any of them.

To go beyond our proverb-making ancestor, and to say that we now have a prospect of killing three birds with one stone, sounds too good to be true. But, for once, it really does appear to be the case that three of the most intractable politico-economic problems facing the modern world could be dealt with by a single action.

Now let us describe the three birds, and then the one stone.

The first problem which worries not only the Americans, but also the whole of the free world, is the threat of recession and unemployment. Even a slight fall of employment and business activity in U.S.A. from the high level of 1950–1953 is causing great anxiety. It is no use telling people that those were the years of highest American business activity ever recorded, and that even if business falls off considerably, they will still be left better off than they were in 1949, or in 1939, or in 1929, or at any previous date. Quite apart from the fact that there are an ever-increasing number of people for whom these are dates of merely historic significance, it remains true that when people have enjoyed for several years a period of full employment and good business conditions, and have seen that this is quite compatible with a reasonably stable cost of living, they will expect their legislators to maintain this state of affairs for them permanently. It may be unreasonable, but there it is. Even the more old-fashioned type of economist, who believes that it is contrary to nature that you should have business good all the time, and that an occasional recession is quite a good thing, and helps to preserve what he calls " industrial discipline "—even this school now seems to agree that unemployment should not be allowed to rise to a figure higher than 5 per cent. of the labour force.

The second bird causing anxiety in U.S.A., Australia and elsewhere, and even to some extent among British agriculturists, is the problem of the disposal of certain farm surpluses. What is really worrying is the reflection that if these surpluses became uncontrollable during a period of high business activity, how very much worse the problem is going to become if there is even a slight business recession.

The third bird is the problem of capital help for undeveloped countries. The rest of the world has come to take American help for granted—though in fact it is most ungracious of us to do so. We should recognise as an act of continuing national generosity American willingness to give economic help, on a really substantial scale, to other countries. But even to the wealth and the generosity of the American tax-payer, there are limits. We should not expect American economic help to the rest of the world to continue for ever solely in the form which the statisticians so coldly describe as

" unilateral transfers." Most economists and political thinkers agree that it will be far better for all concerned when these can be replaced by loans—genuine loans, that is, and not merely disguised transfers—and commercial investments.

Now for the stone which is to kill these birds. The essence of the proposal is *to use stocks of commodities as the basis for the currency.* Our fathers based their currency rigidly upon gold. Then this generation went to the opposite extreme and made the issue of currency depend, in effect, entirely on the discretion of Central Banks and Governments. It is indeed only recently that the eminently sensible proposal for basing the currency on stocks of commodities has begun to be discussed. Its two leading protagonists, curiously enough, both bore the name Graham; they are not related to each other—the late Professor Frank Graham of Princeton, and Mr. Benjamin Graham, New York broker, who is still actively engaged in business, and in propagating his proposals.

Let us look at it from the farmer's point of view first, if only for the reason that he holds a key position in American politics and also for that matter, in the politics of other countries too. Such a proposal will definitely and finally remove his worries about unsaleable farm surpluses, or of farm products only saleable at a heavily depreciated price. The leading farm and mineral products will become, literally, as good as gold, in the sense that you will always get money for them at a definite rate. Or, to put it another way, governments will no longer have to worry about guaranteeing farm prices or assisting farmers. Money will be issued against stocks of produce direct. The stocks of produce will be held as collateral against this currency issue, and as a reserve for emergencies.

Now let us look at the proposal from the point of view of the industrial worker and the business man, worried by the prospects of unemployment and depression. It would be quite wrong to say, as some economists have said, that unemployment and business depression have in the past been shown to have had their origin in low farm prices—their origins are elsewhere, and it would take too long for us to try to disentangle them now. But there is an important truth in the converse statement—that so long as the prices of the principal minerals and farm products are kept stable, there can be no general or world-wide business depression, or widespread and prolonged unemployment. This is not the same thing as saying that every man's job can be permanently assured. No sane man could promise that, under any circumstances. But the maintenance of prices for these basic commodities, by the issue of additional currency to build up stocks at a time when demand for them is falling, would create so much additional purchasing power, and so promptly, that any general depression would be brought to a standstill.

At this stage of the argument, the more seasoned readers must be saying to themselves, there must be some catch in this—it is too good to be true! What goes up must come down, they will be saying. How will these stocks ever be liquidated ? Are we not going to be faced with a pressure for ever-increasing prices, and steadily mounting stocks of unsaleable produce ?

On the contrary. There will be no change in the general level of prices, whatever happens. If producers do not like the price which they are getting, because of high costs of production or for any other reason, they will soon cease to put goods into stock, and then the stocks held as a basis for the currency will begin to run down. This will

have the immediate effect of taking excess currency out of circulation, and will quickly reduce costs all round.

There is another person whose interests have to be considered, namely the consumer. Particularly it is our duty to concern ourselves about pen ioners and others living on fixed incomes, who have seen the real value of their incomes heavily depreciate over the last twenty years. This is not only a grave injustice—it is very discouraging to thrift in the future. One of the first requirements of a sound monetary system is that it should be able to give an assurance to the man who saves money now, through insurance policies, contributions to pension funds, or in any similar manner, that he will be able to get back, with accrued interest, money which has the same purchasing power in 20 years' time, as it has now. People would do a great deal more saving, and would have a much greater feeling of security, if they had this assurance.

This again is only something which a commodity-based currency can give. Our grandfathers used to think that a gold-based currency could give this assurance, but the violent ups and downs of the last generation have disillusioned us.

We still have several questions to answer. How would this commodity-based currency be worked in practice? How would it avoid accumulating unsaleable surpluses of particular commodities? Is it proposed for one country only, or internationally? If an international scheme, where would the stocks be held?

There are two different variants of the practical working of the scheme. But these two alternatives have their main feature in common. This is that, in the first place, a list of the basic commodities which are to be covered should be drawn up, and the relative importance of each commodity should be precisely specified. These quantities should not under any circumstances be departed from. Thus, whenever 10,000 bushels of wheat were taken into stock, as a basis for currency issue, it would be necessary to take into stock at the same time, say, 5,000 bushels of barley, 75 tons of sugar, 7 tons of copper and so on. It may seem odd to insist upon this; but the reason will be apparent. This system, while it will ensure that the *general* level of prices of basic commodities is stabilised, will still leave the price of each single commodity free to fluctuate in accordance with supply and demand. If wheat is becoming increasingly abundant, its price will fall; but, as the price on the whole "basket" is guaranteed, this will mean that there will have to be a countervailing rise in the price of barley or some other basic farm product.

When we provide that the list of products, and the relative quantities of each, can never be altered under any circumstances, some people will say that this is going a bit too far. The difficulty which we shall have to guard against is that some commodity may, for some reason or other, become so extraordinarily scarce that it will be quite impossible to keep a stockpile of it. (There will be no difficulty about keeping requisite stock of any commodity which is in embarrassing abundance). To allow for this contingency, it should be possible, from time to time, to make small alterations in the list—provided we make it as difficult to alter this list as it is to alter a will. A will can be set aside by the Law Courts, but only on clear proof that it has become quite impossible of fulfilment. To alter the list of commodities used as a basis for the currency should only be possible (for an international scheme) on a special judgment of the World Court

(an institution already functioning, though we do not often hear of it) on receipt of proof that some commodity in the original list was becoming impossible to obtain.

Now we come to discuss the two variants of the scheme, one as now proposed by Mr. Graham (in the March issue of the American periodical *World*), and the other proposed by Professor Hayek in *Economic Journal*, 1943, as an amendment to the original proposals of Professor Graham. The essential difference between the two methods is that in the former the currency-issuing authority would actually have to hold the stocks in its own name, and meet the costs of storage, deterioration, insurance, etc., while under the second proposal they would merely have a paper holding of storage vouchers of stocks held by private traders, which could not be sold so long as the storage vouchers were deposited with the currency-issuing authority. The former variant, under which the issuing bank would actually hold the stocks, would give the bankers more work to do ; the latter would give private brokers and traders more work to do. (It may be Mr. Graham's modesty, as a broker, which leads him to favour the former scheme).

Under Mr. Graham's proposal, the issuing bank would watch the prices of all the staple commodities included in the list. When the *combined* price of all these commodities fell 5 per cent. below a specified parity point, the bank would start buying these commodities (in the specified proportions) and storing them, issuing fresh currency for the purpose of making these purchases. As soon as the combined price rose to more than 5 per cent. above the parity point, the bank would start selling from its stocks, and some currency would be taken out of circulation. But Mr. Graham estimates, roughly, that the margin of 10 per cent. between buying and selling price would give the bank enough revenue to pay for storage, deterioration, etc. We can take his word for it that this would be true in the long run, though there might be some years in which the bank was unable to recoup its costs.

In Professor Hayek's version of the scheme, the goods in storage would always remain the property of private traders (or of Farmers' Co-operatives or marketing agencies). The owners of the goods would, however, give liens, handing over the storage vouchers, and receive new currency in the form of interest-free loans against this security. But any single trader generally only holds stocks of one or two of the commodities specified, and it would be beyond his powers to hand over to the bank storage vouchers for all the specified commodities, in the right relative quantities. This would have to be done by brokers. Indeed, as Professor Hayek points out, a new kind of brokerage office would have to grow up. These brokers would have to go round among the traders and hire from them their storage vouchers. In some cases these vouchers would be rather hard to get, and they would have to pay the merchant a substantial commission for each month of hire ; where the goods were abundant they could probably hire the vouchers for a nominal payment. As soon as the broker had collected a " full hand ", he would take it to the bank and get an interest-free loan on it. (The scheme would in fact bear some resemblance to the old-fashioned but entertaining card game of Gin-Rummy, as a prominent International official once pointed out in an unofficial and unpublished leaflet which he wrote after a conference on this subject). So long as the bank held these collections of vouchers, the currency would remain in circulation. If the brokers wanted them back, because the merchants needed them, the interest-free loans would have to be repaid, and the currency in circulation would contract.

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Professor Graham's version of the scheme would undoubtedly be simple to operate so far as the issuing bank was concerned, and would not involve any risk of loss. But the differences between the two schemes are not of major importance. Whichever were adopted would have the desired effect of stabilising the general level of prices of the commodities

There is one final point which should be made clear. This currency issued against stocks of commodities would be the *only* source of new currency. If, in addition, you have in each country a bank with the right of issuing and withdrawing currency as at present, the whole scheme would be nullified.

If the scheme is confined to one country, the stocks would probably be required to be held in that country, unless there were some special reason for holding them abroad. If it is an international scheme, the position will be different. Stocks held on the territory of any of the participating countries ought to qualify. The only objection to this might be on the score of military security. If a group of countries are willing to participate in organising a common currency like this, it stands to reason *a fortiori* that they do not intend to go to war with each other. However, the territory of some of the participants might be adjudged to be rather more liable to attack from outside. But even if this is so, it is surely inexpedient to tell the world, by announcing that there are certain areas in which it is unsafe for those stocks to be held. A matter like this is best settled by quiet private negotiation among the governments concerned.

We have seen how the stone is going to kill two of the birds. But so far we have not said much about the third, about the mechanism whereby, not the U.S. alone, but all other economically developed countries, can make loans or investments in those parts of the world where they are most needed.

If we have such a currency-issuing bank working on an international scale, holding stocks of all the staple commodities in different parts of the world, either directly, or through holding merchants' vouchers, the obvious next step is to give to such a bank the duty of organising the transfers of loans and investments.

The need for outside capital in Asia, Africa, and the poorer countries of Latin-America is so great that we can hardly exaggerate it. Europe, which certainly ought to be able to look after itself by now, tends to ask for more American money just out of habit. But the actual flow of capital is still on a very small scale. This is due, not only to unwillingness on the part of the investors in the wealthier countries, but also to lack of satisfactory channels of investment, even if they were willing. But if such capital investments are not made, on a large scale, and quite soon, many of these countries will find economic progress almost impossible, and may indeed slip back. The ever-increasing contrast between their poverty and the rising wealth of the economically developed countries will build up an emotional tension which will eventually be discharged in revolution, communism and war.

Any country which wanted to receive assistance therefore would first have to come into the currency scheme. This would mean that they would undertake, permanently, to use this commodity-based currency as a sole currency. To no country would this be a hardship; for any country it would be an advantage. But it would mean an end of

exchange regulations, blocked accounts, untransferable dividends and all the rest of the paraphernalia which so greatly hinder international commerce and investment today.

One other condition the borrowing countries would have to accept, if they wanted large foreign investments. They would have to give an assurance against the arbitrary seizure of foreign property, or the imposition upon it of taxes out of proportion to those which are imposed upon their own citizens. The simplest way to provide for this would be an undertaking that any dispute on property rights between the government of one country and a citizen of another country could (subject to the exclusion of trivial disputes) be referred to the World Court.

These conditions having been fulfilled, the Bank would establish credit and loan accounts, just as any ordinary trading bank does. Every country capable of devoting economic resources to investment abroad would be expected to build up a credit account —U.S.A., Canada, countries of N.W. Europe, Argentine, Australia and New Zealand, and even indeed Japan. These countries would indicate—though the figure would be subject to occasional revisions—the proportion of their national income which they were able to invest abroad—a figure of something like 3 per cent. is the order of magnitude frequently aimed at. In so far as they can get this investment carried out by individual enterprise (once exchange controls, etc., have been abolished, this would come much more easily) it will not be necessary to make the investments through the Bank. Direct loans between governments are probably not desirable, save in exceptional circumstances. Each lending country would make up such part of its quota as had not already been invested through private enterprise or through direct government loans by paying into its credit account at the Bank. And these payments would be made, in effect, not in gold or dollars, but in commodities. What are now unsaleable farm products in the U.S. would become real assets in the form of loans to developing countries, of the greatest value to the world at this moment, and truly repayable at a later date. The holders of the credit accounts of the economically developed countries, and the borrowers of the loan accounts for the undeveloped countries, would not, however, be the governments of the respective countries, but their Central Banks.

The World Bank, seeking to collect sufficient credits, should thus ask the Central Bank in each country to do the job for it. In the same way, the distribution of the credits in the receiving countries would be better handled by the Central Banks than by governments.

Least of all do we wish to see the distribution of capital in borrowing countries handled by International Commissions with all their rigmarole of red tape and enquiries. The Central Banks in the borrowing countries would draw on their loan accounts directly in the form of imports they happened to need most urgently at the moment.

Once again, it should be made clear that these transactions between the wealthy and the poorer countries should be loans, not gifts or grants. But, in view of the great poverty of most of the countries which now need assistance, they should be interest-free loans, and repayment should not be due to begin for some fifteen or twenty years. To ask for any better terms would soon lead to a re-enactment of the collapse of the international loan market which occurred in the 1920's, with all its incalculable harm to world economy and to world peace.

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Notes and Comments

GOLD RESERVES LEAP YET AGAIN

THE sterling area's gold and dollar reserves continue to rise. They increased by $165 million in May bringing them to a total of $2,985 million. Compared with the April figure of $2,820 million there has been an increase of 5·85 per cent. and the total reserves now amount to 77·2 per cent. of the last peak of $3,867 million in June, 1951.

As our table set out below shows, only $6 million were received from the United States as defence aid. Gold receipts from the European Payments Union accounted for $39 million of last month's increase.

STERLING AREA'S GOLD AND DOLLAR RESERVES

ANALYSIS OF GOLD MOVEMENTS

($ million)

End of Period or Month	Gold Payments ( ) or Receipts ( ): Net Surplus or Deficit	of which: E.P.U. settlement	of which: Balance with Rest of the World	Defence Aid	Change in Reserves	Reserves at End of Period or Month	% of last Peak of $3,867 million in June, 1951
1951							
1st half mthly. av.	71	7	64	23	94	3,867	100·0
2nd half mthly. av.	232	43	189	6	226	2,335*	60·4
1952							
1st half mthly. av.	141	59	82	37	97	1,685	43·6
2nd half mthly. av	19	14	5	38	27	1,846*	47·7
1953							
1st half mthly. av.	59	23	36	28	87	2,367	61·2
3rd qtr. mthly. av.	12	6	18†	28	40	2,486	64·3
4th qtr. mthly. av.	52	2	54	19	71	2,518*	65·1
1954							
1st qtr. mthly. av.	36	2	34	20	56	2,685	69·4
January . .	10	4	14	15	25	2,543	65·8
February . .	9	7	2	31	40	2,583	66·8
March . . .	88	2	86	14	102	2,685	69·4
April . . .	126	7	119	9	135	2,820	72·9
May . .	159	39	120	6	165	2,985	77·2

* After payment of $181 million on December 31 each year to service various North American loans; these items are not included under "Balance with Rest of the World".

† After payment of $39 million to Canada under new agreement for amortising 1942 loan.

The most interesting item, however, is the sterling area's surplus with countries outside the European Payments Union which amounted to $120 million in May. This figure compares with $119 million in April and $86 million in March, making a monthly average of $108 million. This upward trend was attributable to various factors: first, the reopening of the London gold market and the extension of the sterling transferable area in March. Secondly, the higher money rates in London compared with those of the principal overseas financial centres. And thirdly, certain rumours that the margin of the sterling rate of $2·78—$2·82 was to be widened. A spokesman of the Treasury

estimated that, until these rumours were officially denied, perhaps $80 to $90 million of this $120 million surplus was received by a continued inflow of short-term funds during the first few days of May, leaving a remainder of $30 to $40 million earned by " normal " commercial transactions. A further inflow of Russian gold has, of course, also contributed to this continued rise of our gold and dollar reserves especially during March and April.

Britain's surplus with the European Payments Union in May was £10·8 million which will be settled during May as to 50 per cent. in gold and dollars, and 50 per cent. by reduction of the United Kingdom's debt to E.P.U.

SUCCESSFUL LOAN CONVERSION

LIKE most recent Government loan operations, the conversion scheme which the authorities sprang on the market a few weeks ago has achieved a considerable measure of success. The objective was the elimination of the £321 million of 3 per cent. National Defence loan, 1954–58, which becomes optionally redeemable on July 15 on three months' notice, and has been called for redemption on September 2. A Government loan operation of some kind had been expected by many people in the City ever since the Bank rate reduction in May, but surprise was caused by the decision to exercise a repayment option at practically the earliest possible date when there are final loan maturities to meet in the relatively near future, including the £535 million of 1¾ per cent. Serial Funding stock which must be converted or paid off next November.

During recent years of strained Treasury finances, investors and the market had acquired the habit of regarding final maturity dates as the effective repayment dates of all Government stocks except the few carrying really high rates of interest. It was therefore a shock to find the Government paying off a loan at the first opportunity.

The operation fell into two parts, after the usual manner of Government conversion schemes. As an alternative to repayment on September 2, holders of the National Defence loan were offered conversion into a new 2 per cent. Conversion stock, 1958-59, at an effective price of 99½. At the same time £300 million of this new stock was offered for public subscription, also at 99½ per cent. The cash offer was evidently successful, judged on the terms of allotment, although it was doubtless well supported by the Government departments. Results of the conversion offer were much better than had been generally expected, £292 million of the National Defence loan being converted into the new Conversion stock.

It is believed that the banks and the discount market houses, which were substantial holders of the loan, were largely responsible for the heavy conversions, which leave the Government with only £29 million to find in September to pay off the balance of the National Defence loan. Some market guesses put the amount of cash subscriptions to the new Conversion stock—apart from those put in by the departments—at about £100 million. Even if allowance is made for substantial departmental support for both the cash and conversion offers, the net result of the scheme obviously left the Government with a considerable sum, in addition to the amount required to pay off the National Defence stock, which is already being used for the repayment of floating debt.

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When the Government scheme first made its appearance, institutional investors and the stock market looked rather askance at a four to five year stock carrying only 2 per cent. interest. Owing, however, to the impression created by the sudden calling for redemption of the National Defence loan, and the offer of a new stock carrying such low interest, the market has adjusted its thinking to the ideas of the authorities. The Government has thus cut the interest charge by one per cent. on some £300 million of debt without any shortening of the final maturity of its obligation, and at the same time has left itself with some cash in hand for reducing its short-term indebtedness. It has been able to do so largely because of the favourable financial climate created by its own sound policies.

LOCAL AUTHORITY LOANS

EXPECTATIONS of a reduction in the interest rates charged by the Public Works Loans Board on loans to local authorities were fulfilled last month. Although the adjustment has been made not long after a fall in Bank rate, the Board's interest charges are linked less closely with Bank rate than with the long-term rate of interest as established by Stock Exchange quotations for gilt-edged securities; and this rate has been falling on balance for a fairly long period.

The rate on P.W.L.B. loans for periods not exceeding five years has been reduced from $2\frac{3}{4}$ to $2\frac{1}{2}$ per cent., while that for loans for 5–15 years comes down from $3\frac{3}{4}$ to $3\frac{1}{2}$ per cent. For the loans which are taken most widely by local authorities—those for periods of over 15 years—the new rate is $3\frac{3}{4}$ per cent. instead of 4 per cent., and is fairly close to long-term yields in the gilt-edged market. The $3\frac{3}{4}$ per cent. rate charged on these loans is now back to the level to which it was raised in November, 1951. This rate was increased further to $4\frac{1}{4}$ per cent. early in 1952, as the present Government's dearer money policy became effective, and remained at that figure until the reduction to 4 per cent. last October.

An important concession was made by the Treasury last month in connection with local borrowing from the Loans Board. Until then, loans for housing had to be for the full term—60 years—of the Ministry of Housing and Local Government sanction to the local authority to borrow. The Treasury has now agreed that, with certain exceptions, loans for periods shorter than the sanction will be allowed. A considerable proportion of the issues of corporation loans made during the eighteen months since corporation borrowing on the market were sanctioned were the result of the former compulsion to borrow for housing for long terms. Corporations were unwilling to tie themselves to a $4\frac{1}{4}$ per cent., or 4 per cent. rate with the P.W.L.B. for a period of 60 years, and preferred to raise their money on the market for a shorter term. The new concession may thus tend to restrict the flow of new offers of corporation loans for public subscription.

RECORD VALUE OF QUOTED SECURITIES

STOCK Exchange prices have risen substantially since March 31, but the annual statistics published last month by the London Stock Exchange show that even by that date the aggregate value of all quoted securities had reached a new record. The total was £30,102 million, a rise of £2,972 million during the preceding year, and £2,000 million higher than the previous record established in 1947. Aggregate nominal value of quoted securities increased by £1,030

million during the year to £26,653 million. The rise in prices is illustrated by the fact that while nominal value was 4 per cent. higher, market valuation rose by over 10 per cent. About two-thirds of this increase represented a rise in quotations, the remainder being due to the appearance of new securities on the market.

The usual analysis of rises shows that against an increase of £611 million to £14,551 million in the nominal value of British Funds quoted on the Stock Exchange, the market value rose by £1,086 million to £13,454 million. The much steeper advance in the industrial share market is reflected in a rise of no less than £1,110 million to £5,955 million in commercial and industrial securities, although the nominal value of securities in this section was only £244 million higher at £2,739 million.

A table included in the return for the first time analyses the valuation of different classes of company capital classified under loan, preference and ordinary capital. The companies covered in this analysis range over a wide field from banks through commercial and kindred undertakings to rubber, mining and other concerns of the more speculative type, the total number of companies covered being 4,959. At the end of March last the loan capital of these companies was valued in the market at about 14 per cent. below its nominal value, while nominal and market value of their preference capital was approximately equal. Their equity capital, however, was valued on the basis of prices at March 31 at £9,241 million, or nearly three times its nominal value of £3,475 million.

The small effect of this large premium on equities in determining the aggregate valuation of all quoted securities is, of course, due to the fact that the Stock Exchange deals predominantly in British Government and other purely investment stocks. Under normal conditions, these fixed-interest stocks do not depart very far from their nominal values, and their weight gives stability to the aggregate market value of securities as a whole, however wide the fluctuations in more speculative but financially less important sections of the Stock Exchange.

FILM FINANCE FIASCO

With the appointment of a receiver and manager to the British Lion Film Corporation, a five-year experiment in State financing of film production is brought to an inglorious end. The State-sponsored National Film Finance Corporation announced last month that British Lion's entire share capital of some £340,000 had been lost, and that a very substantial part of the loan of £3 million made by N.F.F.C. to the company will be irrecoverable. Further losses were incurred by British Lion during the past year, and the N.F.F.C. has had to make a substantial increase in the provision in its accounts for the loss in respect of this loan. It has been estimated that no more than £1 million of the £3 million will be recovered.

The policy of State finance for film making was started, as far as British Lion's affairs are concerned, with a loan of £1 million from N.F.F.C. in 1948, but the loan was increased later to its present amount. No repayments have been made since 1951, but it was apparently not until last year that British Lion's losses assumed proportions

making drastic action inevitable. The decision to appoint a receiver has been approved by the Government, which has agreed that a new company shall be formed to take over and continue the film distribution functions of British Lion, under the complete control of N.F.F.C. or the receiver. The new company will no make films, but it is hoped that the Shepperton film studios will continue to operate under the receiver's direction.

The failure of this film financing experiment has a general interest for bankers owing to the criticism levelled at " the City " and particularly at the banks—under the previous Socialist Government—because finance was not made available on a lavish scale for the hazardous business of film production. Bankers, with their customers' funds at stake, have always received the film makers' demands for accommodation with a good deal of caution, and their attitude has been justified by events.

In its annual report, the N.F.F.C. admits that its experience shows that under present conditions losses cannot be avoided by those who provide the risk money for film production. It might be added that the Corporation's experience with British Lion also demonstrates the risk attaching to loans to the industry. The making of high-class British films is a worthy objective, but it is now quite evident that the financing of production is suitable only to those who are prepared to take serious risks and if necessary to face heavy losses.

BUILDING SOCIETIES AND BANK RATE

CRITICAL comment on the absence of any reduction in building society mortgage rates, following the fall in Bank rate, brought a statement last month from the Building Societies Association setting out the attitude of the societies to house purchase loans. The statement points out that there is no necessary and immediate connection between Bank rate and the rates charged by building societies, in spite of the fact that their general rate was raised from 4 to 4½ per cent. shortly after the increase in Bank rate from 2½ per cent. to 4 per cent. in March, 1952. It is explained that the increase in charges at that time was caused not by the Bank rate change, but by the general increase in the level of interest rates which had already taken place.

The Association emphasises that the funds which the building societies lend to house purchasers come from the savings and investments of the public, and that to attract and retain these funds the rates paid have to compare favourably with the yields on other forms of investment. That being the case, the rate charged to borrowers from the societies is governed by the rates the societies offer to investors, and therefore cannot be cut until a reduction in the rates paid to investors can be justified.

Long-term interest yields have been reduced substantially by the rise in gilt-edged securities since Bank rate was at the 4 per cent. level, but the societies evidently fear to lose deposits if the rates they pay to shareholders and depositors are reduced. A part of the funds recently attracted to the building society movement by relatively high rates is believed to have consisted of " hot " money in the sense that it was liable to withdrawal if the societies' rates became less competitive. The maintenance of rates, with the

object of retaining and attracting as much money as possible may also be inspired by the possibility of larger business in mortgages now that private building has become more active and the deposit demanded of house purchasers has been reduced.

SCOTTISH BANKER SPEAKS OUT

MR. J. J. CAMPBELL, general manager of the Clydesdale and North of Scotland Bank, took the opportunity of speaking up for the banks in his presidential address last month to the Institute of Bankers in Scotland. The favourable reception given to this address in many newspapers shows that there is no lack of interest in the banks and their activities, and a spirited, well-reasoned and self-analytical reply from a banker to criticisms from various quarters will be treated with the responsibility it deserves. Bankers should derive encouragement, and perhaps learning, from this example.

In the early part of his address Mr. Campbell had a few words to say about young men in banks to-day. He said in public what he has said before in private, that he does not subscribe to the view that the banks are not attracting the right quality of youth. Although boys of to-day are different from those of his generation, that does not mean that they are any poorer, and Mr. Campbell has no doubt that youths taking their banking examinations to-day are as good as, and in many cases better than, their opposite numbers of forty years ago.

The main part of his address, however, was devoted to examining criticisms voiced recently by Professor R. S. Sayers (*The Bankers' Magazine*, April, page 330), Professor A. K. Cairncross, and in an article contributed to *The Economist*. This examination was in no way conducted as an attempt to whitewash the banks ; it was consequently more effective. As Mr. Campbell said, " complacency is both dull and unhelpful ". On the subject of lending, Mr. Campbell stressed the limiting effect of Treasury directives, possibly forgotten by some critics, with which the banks have striven hard to comply, " against their own inclinations, frequently to the irritation of their customers, and certainly to the detriment of their own earning capacity ". In reply to Professor Cairncross's specific point that " it is high time the banks stopped insisting on full collateral ", Mr. Campbell asserted that the proportion of lending which is unsecured or only partly secured is higher to-day than at any time in this century. The banker depends much more on his judgment of the man and his customer's business record than on any formal security, and so long as competition remains as keen and healthy as it is to-day the customers' interests will always be safeguarded.

On the subject of efficiency Mr. Campbell stated that the banks would do well to ponder the searching questions that had been raised. " There is no doubt that they have all taken advantage of the opportunities for mechanical accounting, but it should be remembered that mechanisation cannot be equated with efficiency in every case. There is perhaps some truth in the suggestion that there are too many small branches in Scotland, but there are fewer to-day than before the war, and the recent amalgamations will probably bring about some further reduction. But this process cannot be carried out overnight. Customers are not merely names in a ledger. Nor can staff be dealt with in terms of numbers. On a basis of ruthless efficiency no doubt some economies could be effected, but I am glad to feel that we can still pay some regard to the human factors in planning our organisation."

Overseas Notes and Comments

THE DM LEAD TO CONVERTIBILITY

In 1948, at the time the Deutsche Mark was drastically deflated, the economic situation of Western Germany showed few hopeful signs and many threatening ones; and as recently as 1950 the Bank deutscher Länder had an adverse balance of DM 1 billion on its foreign exchange accounts. Then the drastic remedies prescribed earlier by Dr. Erhard began to show its meliorative effects, and, before long, the German recovery attracted universal attention. At the end of last March the B.d.L.'s gold and foreign exchange holdings stood at the equivalent of £776 million, of which gold and dollars accounted for £479 million. (At the same date the United Kingdom's gold and dollar holdings were £959 million, which sum formed the basis of the trade of the entire sterling area, with the doubtful exception of South Africa). The Republic's gold and free exchange is now equivalent to three months' visible imports, and more and more Germans feel that, at last, the road to convertibility is not barred by inadequate reserves. Moreover, there is no longer a dollar gap; for the expenditure of U.S. armed forces and of travellers makes Western Germany a handsome creditor of America. The position would be a great deal better were Germany able to cash-in on all her E.P.U. and clearing agreements surpluses; but these credits must be regarded as an export of capital, however unwilling. Incidentally, the rapid growth of foreign exchange reserves has forced the authorities to exercise considerable ingenuity in order to prevent the DM counterpart from getting into the circulatory system and thus setting off a new inflation. Several weapons have been used: larger imports (but, significantly, not such as to threaten the country's uneconomic agriculture) have given an outlet for extra spending power; but the interest rate has been prime favourite. Provided money is kept dear enough, savings are attracted and expenditure is discouraged. How successfully practice has conformed to theory is shown by the figures of sales of fixed-interest securities over the past four years. In 1950 they amounted in DM million to 677, in 1952 to 1,358 and in 1953 to 2,849.

What stands in the way of the last step that divides this model economy from making its currency convertible? To listen to a good many Germans one would imagine that the only obstacle is the obstinate attitude of the British Treasury. However, under the London Agreement on Pre-War and Post-War Debts, Western Germany has to transfer annual sums starting at the equivalent of between DM 500 and DM 600 million and rising to DM 800 million. While the B.d.L.'s foreign exchange receipts are as buoyant as they are now the burden will not be excessive provided it is the only one. But full convertibility will bring with it the right for non-residents to repatriate their capital and, though nobody imagines anything resembling a flight of capital, the country must be prepared to see a fair number of sceptics demanding what, in the aggregate, may be inconveniently large sums.

Another future burden whose size cannot be estimated is defence costs. At present Western Germany pays DM 600 million monthly as occupation costs and this money, in so far as the Occupying Powers spend it, is spent within the country—therefore no transfer burden. But let us suppose the coming of freedom and, with it, defence costs

equal to, say, half of those now borne by the United Kingdom. This would mean an annual expenditure of DM 9,400 million, and a large though unpredictable part of it in foreign exchange for imported goods.

Lastly, as Napoleon's mother used to remark, *pourvu que ça dure.* We all experience times when every attendant circumstance obligingly goes right; but the belief that Fortune always favours the brave is one for which history gives little warrant. One test that will show how deeply the foundations of recovery are laid will be reached on the day the German authorities dare to show faith in the future by freeing the capital market in such a way as to make it possible to issue equity shares. In the meantime, responsible German spokesmen express themselves confident of convertibility between now and April next.

S.W. AFRICA: A GROWING MARKET

EXCEPT for the small British-held area round Walvis Bay, South West Africa was annexed by Germany during the scramble for colonies seventy years ago. Since the first world war it has been administered by the Union of South Africa under mandate, and is now represented in the Union parliament by ten members. This vast territory, three-quarters the size of the Union, is perhaps unique today in that its principal products are virtually all exported, while its requirements in manufactures and processed commodities are almost all imported. Up to recent times the country's economic life was dominated by the production of karakul (lambskin) pelts. Now, though karakuls are still important, they have lost their primacy to minerals. The change of emphasis has taken place rapidly. In 1946 mineral exports amounted in value to less than £2 million; by 1952 they had reached over £21 million, of which diamonds brought in £10·7 million, lead £8 million and zinc £1·6 million. Karakuls, at £4·8 million, still lead the group of animal products; but living animals, butter and wool are increasingly contributing to the diversification of the economy. Altogether, exports in 1952 totalled over £35 million. The United Kingdom took nearly half of these, diamonds accounting for £13 million and karakuls for £3·4 million. The Union was, naturally, an important customer (£5·3 million) but Belgium bought more still. The U.S. trade deserves notice, for, while South West Africa bought £1·1 million of American goods, her sales for dollars were nearly five times as great.

The population is about 400,000 of whom some 50,000 are European, most of these either Afrikaaners or Germans. The market for consumer goods is therefore small; but the total of imports at round about £20 million shows that there are opportunities. The territory has a large favourable balance and import licencing is far less restricted than in the Union. The demand for machinery, vehicles and hardwear is considerable and will increase. It will be satisfied by exporters who know how to compete with Germany, by firms whose representatives, when visiting the Union, take the trouble to go on to Windhoek and Walvis Bay in person to examine local conditions.

SUDAN OUTPOST

THE appointment of Capt. H. R. Dibble, District Commissioner, Gambeila, to the Order of the British Empire in the Birthday Honours List is well deserved. Gambeila is a trading post nearly 100 miles inside Ethiopian territory, along a tributary of the Nile, from which the exports of Western Ethiopia travel 1,000 miles to Khartoum in the rainy months of July, August

and September. At other times shipping is impossible for lack of draught for the vessels. Western Ethiopia imports her oil requirements, cotton goods, etc., by this waterway. In an enclave of roughly one square mile the two countries have their Customs posts. More important from this Magazine's point of view is that within that square mile the Egyptian pound, not the Ethiopian dollar, is the currency used. Few countries in the world can have so small an area of currency circulation surrounded by foreign territory. This well-ordered town stands as a monument to Capt. Dibble's efficient administration.

JOINT VENTURE IN PAKISTAN

THE methods by which subscriptions have been obtained for the financing of the Sui Gas project in Pakistan provide an illustration of the flexibility that is gradually returning to the monetary side of capital development. First of all, Rupees 3,780,000 (say £410,000) was raised in equity shares in local currency. Of this about a quarter was taken up by the Pakistan public, while the remainder was contributed in roughly equal shares by the Pakistan Industrial Development Corporation (a Government institution), the Commonwealth Development Finance Co., and the Burmah Oil Co. Then, early in June, the International Bank for Reconstruction and Development announced its expected £5 million loan but added that the eastern exchange banks were going to participate in this sum to the extent of £645,000. The first seven maturities of the loan falling due semi-annually from August 1, 1956, through August 1, 1959, are apparently to be devoted to the repayment of the banks' tranche. The sterling of the I.B.R.D.'s loan has been made available to the Bank by the United Kingdom out of its sterling subscription to the Bank's capital. The loan is spread over 20 years at 4¾ per cent., is guaranteed by the Government of Pakistan, and is secured by a trust deed with Baring Bros. as trustees.

The borrowing concern is the Sui Gas Transmission Co. Ltd., and the project is the piping of natural gas along the 350 miles to Karachi. The gas itself will be extracted by Pakistan Petroleum Ltd., a company owned 70 per cent. by Burmah Oil and nearly 30 per cent. by the Pakistan Government. The reserves of the " gas dome " are estimated to be able to supply 110 million cubic feet of gas per day (about three times the present likely consumption) for over 50 years, and it is hoped to complete the pipe line by May, 1955. In the first year of operations production is expected to be equivalent to 500,000 tons of coal, which is not far short of Pakistan's present annual import of solid fuel.

MIDDLE EAST AND EAST

IN 1952 the Crosland Mission reported very fully and helpfully on the problems and possibilities for British exports to the " dollar account " countries of the Caribbean area. In October, 1953, the President of the Board of Trade appointed a Mission under the leadership of Sir Edward Benthall, K.C.S.I., to examine the same problem as it referred to Iraq, Kuwait, the Lebanon, Syria and Saudi Arabia. The Mission's report was published last May (H.M.S.O. 5*s.*) and serves as a fitting introduction to the Bagdad Fair which is being held next October. The economic rise of certain of the Middle East countries has been meteoric. The five covered by the Benthall Report took, in 1938, 0·7 per cent. of the United Kingdom's exports ; by 1953 the proportion had grown to 2·8 per cent. Measured in pounds sterling this was an increase from £3·2 million to £71·2 million, an impressive

advance even when the depreciation of sterling is allowed for. The United States has enjoyed similar good fortune, her sales over the same period having risen from £2·0 million to £60·7 million.

At present Britain enjoys a larger share of this market than she did immediately before the war but everywhere the Mission went it found our products being challenged by rising competition. The third largest supplier is France, with £20 million in 1953, but her sales seem to have steadied at about that level. The breaker of new ground is Germany: her exports to the area in question have more than doubled since 1951, and though still little more than £14 million are usefully reminding our manufacturers that there are no feather beds for exporters nowadays.

Iraq, the Lebanon and Syria have agricultural products that they wish to sell abroad, and the Mission found that the public in these countries were much concerned with finding outlets. They were also occupied with the development of young local industries. Unfortunately the prices of nearly all the agricultural products in question have been falling and the Mission found a strong demand that the West should assist by taking over some of the surpluses that have been piling up. Britain seems to do her part in this respect—in Syria, for instance, she is the great buyer of barley—but the Mission evidently thinks that more will have to be done if we are not to lose ground.

Iraq, Kuwait and Saudi Arabia have been the great beneficiaries of the oil boom Iraq's income from oil amounted to £50 million. Nearly three-quarters of this is being applied, and on the whole wisely, to a series of big development projects. But, as in the other *nouveaux riches* countries, there are hindrances. The administration has, up to now, been geared to far more modest conditions and it cannot be expanded satisfactorily overnight. The Iraqui, having tasted the sweets of representative government, want a host of immediate benefits, a fact that makes orderly progress even more difficult. In Kuwait and Saudi Arabia an old-fashioned autocracy is still the order of the day and the population small; yet that will not solve the problem of a lack of local skills, both managerial and manual.

The Mission is confident, however, that the great development works of the oil states will go on. Britain's care must be that her contribution of goods, advice and technical aid does not diminish. The task is already becoming hard in places. In many lines of exports " the United Kingdom is losing business . . . solely on account of prices ". On the whole, British unwillingness to grant favourable credit terms does not feature as a cause of diverted contracts but the export incentives offered by some of our competitors have certainly damaged our sales. Just as serious a hindrance, however, has been " the overall lack of incentive due to the heavy risks involved and the excessive rate of taxation in the United Kingdom on profits earned overseas ".

Much of the material sold requires careful packing and subsequent servicing, and in both these respects some British exporters still have a good deal to learn. Servicing depends as much on trained labour as on spare parts, and here the Mission stresses that the inevitable shortage of competent managers, foremen and fitters should be met by accepting selected men in factories in England for specialist training. Sales and service representatives also should pay longer and more frequent visits to guide and develop

the local depots. Above all, directors and senior officers should themselves go out to these countries and stay there long enough to win the confidence of the people who matter.

Mutatis mutandis, much of all this advice is also given by the Burghley Mission which made a short visit to Burma last February and whose report is also now available. (H.M.S.O. 2*s.* 6*d.*). Burma, however, has been torn by years of civil war following straight on from the period of Japanese occupation, and large economically important regions are still controlled by various brands of bandits. In the circumstances the tremendous enthusiasm of the Burmese Government is something that must be admired even while some of the plans seem half-baked. On the whole, the Report says, " the planning is on sound lines . . . provided priorities are wisely accorded . . . ". But there is the same acute need (more acute, perhaps) for trained men that was noted in the Middle East by the Benthall Mission : " the greatest problem which Burma has to face is her limited availability of administrative, professional, technical, and managerial personnel, and these are the skills which, as we see it, she will need to seek from the more advanced countries during the next decade ". Yet in one important respect Burma differs from the Middle East countries. *They* (the oil States, anyhow), are moving rapidly into a vastly expanded prosperity, while Burma still lags far behind her pre-war standard. Civil disruption and the Japanese war we have already noted as the main causes, but another has been the xenophobia that has led to the harsh treatment of legitimate British and Indian interests. As far as the English are concerned, this evil tide appears to be on the turn but it is as yet too early (*pace* the optimistic tone of the Burghley Report) to say whether the new smile of welcome will outlast the expert's immediate usefulness.

These two Reports cover, together, about 140 pages and contain a mass of data whose clear arrangement is a credit to the respective secretaries. They should be in the hands of every manufacturer or merchant doing considerable business in the countries concerned and should be carefully studied by any bankers who hold themselves out as competent to advise exporters on their problems.

THE COLONIAL TERRITORIES

FOR the purpose of its annual report, the Colonial Office year runs from April 1 to March 31 and the last volume (Cmd. 9169 ; 6*s.* net) appeared with commendable promptitude at the beginning of June. It is a formidable work of nearly 200 pages but the year in question has been full of events. Were the average newspaper reader asked to say what he recollected of Colonial happenings in 1953–54 he could probably think of little more than Mau-Mau, trouble in British Guiana, trouble in Uganda and the everlasting Malayan " emergency ". This is natural, for these things lend themselves to picturesque presentation. It is the virtue of a review such as the one just issued that Mutesa II and the Jagans are put in a setting where they assume their real proportions ; here they can be seen against the backcloth of policy, on a huge stage where constitutional and economic developments are profoundly affecting the futures of 80 million people clustered in various sized groups all over the world.

The external trade and balance of payments of the Colonial Territories are not only important to them but to the rest of the sterling area also. It is therefore with some disquiet that one notices the deterioration that has taken place in the balance of payments

during the past few years. Excluding Hong Kong, the surplus balance was £170 million in 1951 and £39 million in 1952; for 1953 the provisional figure is a deficit of £15 million. The main reason for this adverse movement has been the deterioration in the earnings of the Malayan area. Singapore and the Federation of Malaya exported goods to a value of £709 million in 1951; in 1953 this was halved. One reason for the drop was the slump in rubber from an average £401 a ton to £173 and another was a less pronounced but heavy recession in tin prices. A third reason is found when we turn to the entrepôt trade—re-exports. Here Malaya's loss was over £200 million between 1951 and 1953, an experience akin to that of Hong Kong, where re-exports fell from £252 million to £131 million.

Mention has already been made of the drop in the prices of rubber and tin; other heavy losers among colonial export products are cotton, sisal and palm oil. Cocoa, until its very recent upward leap, has been steady, as have palm kernels. The commodities which have shown an upward trend happily include one that is very important—copper; for the rest, we have coffee, sugar and groundnuts, the increased earnings from all of which together cannot have been sufficient to offset the decreased yield from rubber. Meantime the volume index of colonial exports has risen and for 1953 was the highest ever. Rubber shipments fell but there were increases in nearly every other category: in other words, world demand is still active.

On the import side, the total has been falling ever since 1951 in sympathy with the drop in export earnings but 1953 distinguished itself unfavourably by showing a deficit, exports and re-exports of £1,267 million being overshadowed by imports of £1,342 million. Yet the second of these two figures is a useful reminder of what a valuable outlet for British manufactures exists in these quasi-protected territories.

An appendix to the Report sets out the Colonies' transactions with the dollar area over the past three years. The figures are given in sterling and show that, during this period, the surplus on current account has fallen from £162 million, through £128 million to £105 million. Here we have an example of enforced austerity, for surely the 35 million inhabitants of Nigeria and the Gold Coast, if left to their own devices, would last year have spent more on American goods than $9 million out of their export earnings of $49 million? Of course this is not the whole picture; and those who are inclined to work up a facile indignation because "the Colonies are being milked of dollars for the benefit of the rest of the sterling area" had better amplify their knowledge by reading this Report very carefully before giving tongue They will find here the record of one of the boldest and biggest ventures that the world has ever seen—a planned effort to give both freedom *and* a rising standard of life to millions of largely illiterate humans inhabiting widely scattered lands equal altogether in area to Europe. Anybody who takes the trouble to work through the 1,203 sections and 11 appendices of the Colonial Office *apologia* for 1953–54 will, if he is honest, agree that on balance there is little for which to apologise.

ANGLO-ARGENTINE AGREEMENT?

THE Anglo-Argentine agreement of 1949 expired unlamented on June 30 last. In May an Argentine delegation headed by the Minister of Foreign Affairs and the Minister of Economic Affairs came to London to discuss what new agreement might be possible. Our visitors were

faced with a situation far different from that of five years ago, when we went humbly to Buenos Aires. No longer could they hope to negotiate with a Government which, because it monopolised the purchase of meat, was able to guarantee a market for Argentina's principal export product. Conditions in Britain have now resumed something like their pre-war pattern, in the sense that our meat merchants are once again free to buy meat from those producers who offer it at a suitable price and quality: how much will be bought in all in any given period, and from where, will depend on fluctuations in home and overseas supplies and in consumers' requirements. This decision of what is traditionally Argentina's biggest customer has forced Argentina to consider how far she can continue a government-seller structure. If there were a strong seller's market there would be no difficulty, but supplies of meat are nothing like as short as they were and General Perón is not so firmly in the saddle that he can afford to risk his people's censure by failing over the main business deal of the year. Were he now to abandon his hitherto strictly bilateral approach to the whole corpus of Anglo-Argentine trade and payments problems he would perhaps find that the British would go a good way to ease his path. It is certain that he would find active co-operation were he to acknowledge, not only in word but in deed, that a country which imports capital should allow the export of any resultant profits, and that if an enterprise is expropriated the compensation should be not only fair in amount but also freely transferable.

Doubtless the delegation was told all this and more. They appear to have "expressed great interest" and then gone off to some negotiations in Germany. There matters rest and, until further notice, British exports to the Argentine will continue to be little more than a miserable trickle.

THE YEN'S DILEMMA

IN Japan the problem of the exchange rate has become a subject of open argument in financial circles—so much so that the May issue of the *Oriental Economist* prints a discussion on the subject setting out the views of three leading Japanese business men. The Government is enforcing, or at least trying to enforce, a deflationary policy as one of several measures to correct the worsening balance of payments. The unfavourable trend is ascribed to (*a*) excessive domestic consumption and speculative buying; (*b*) too high a wage level in relation to labour productivity; (*c*) lack of working capital; (*d*) uneconomically small production-units; (*e*) bad management, with resultant high costs. The doctors called in by the *Oriental Economist* disagree over the right remedies to apply, but they are at one in their diagnosis of the diseases from which the patient is suffering. Unfortunately, as the recent riot in the Japanese parliament has shown, the economic problem has got to be resolved in an acutely disturbed political climate, one in which monetary decisions may be taken for completely extraneous reasons. The sterling area as a whole, and Britain and Australia in particular, are closely interested in the Battle for the Yen, and however the issue is decided the results will have an important bearing not only on sterling-yen trade but on the Far East situation as a whole.

Mechanisation—Some Reflections

OF all changes in banking over the last quarter of a century the most outstanding is that of the mechanisation of routine tasks such as book-keeping, dividend distribution, club subscription payments and similar chars. The successful application of machines is to be judged by the resulting efficiency, in turn measured by lowering of costs, greater speed of performance, greater accuracy, improved appearance, or any one or more of these benefits. In so many cases the jobs which have been turned over to the machines have proved capable of being thus more efficiently performed, as judged by all these tests. That in itself is not surprising; bankers are careful people, and do not normally rush into innovations without imposing stringent tests. Moreover, a bank would need to take somewhat greater precautions than other business houses, due to its widespread branch networks. Control of its branches has to be certain; for this reason it must strive as far as possible for uniformity, and in turn this means that any change in routine must be visualised as applying to all branches. Whereas a one-office firm can afford, perhaps, to experiment with a new idea, and scrap it if unsuccessful, a multi-branch bank must be sure that it is not introducing something which will, if abandoned, mean a large expense for no beneficial return.

Consequently this present writer has no misgivings as to the caution underlying banking acceptance of mechanised processes—he can, in fact, understand (if not agree with) those who urge the banks to much wider application of machines for routine work. The understanding is based upon the knowledge that if there are tasks yet to be turned over to machines, the banks will not unduly press forward at the risk of making mistakes. Disagreement with the critics arises from the certainty that if, in fact, a job can be better done by machine, the suppliers of suitable appliances will have already drawn the banks' attention to it, and in due time when the suggestion has been thoroughly proved, the machines will be introduced. It is, of course, notably easy to urge that the banks do not move with sufficient speed towards mechanisation, particularly if the critic has no responsibility to bear for the shortcomings of the proposed change in ten thousand banking offices.

Paradoxically enough, experience shows that banks may with advantage take a few steps backwards at times. This has been demonstrated where over-enthusiasm for machines has caused a bank to blunder into too much mechanisation. Successful use of machines depends upon (i) fully trained operators, (ii) the wary avoidance of bottlenecks in the work, and (iii) provision for mechanical breakdowns. Banks can provide for the first two of these requirements, and must be on the alert to ensure that they have competent arrangements to prevent the possibility of dislocations due to the third. This last leads them rarely to mechanise unless at least two machines are installed in each office—and where, at a pinch, the work can be got through with the surviving machine in the unlucky event of one machine going wrong. It is known that some branch banks, initially mechanised with only one machine, have had to be refitted with manual book-keeping due entirely to this cause.

In a recent case an African bank had to take somewhat similar steps due to the fact that (i) the nearest machine servicing office was 800 miles distant, and (ii) it was difficult to keep a sufficient number of trained operators. Here the situation was that four machines were installed. The operators were young men who could not be trained in

sufficient numbers, as commercial education was not fully advanced save over a very small minority of the population as a whole. Cheques presented over the counter were taken to the ledger clerks who made a pencilled marking on the ledger sheets, in order to avoid honouring cheques against insufficient balances, or against wrong signatures, etc. Three operators used the machines, one being kept in reserve in case of accidents. It was never at any time easy to train more than the three essential ledger clerks. After the tills closed the cheques were machine-posted in the ledgers, and the same clerks posted the statements.

Trouble arose when inaccuracies were left undiscovered for weeks, and continuous checking failed to show up the errors. The solution finally reached was to introduce hand-posting of the statements. When cheques were presented there were three statement clerks, chosen for their clear handwriting, to enter them up immediately on the statements. The ledgers were posted as before by machine. At the end of the day, the statements of accounts that had moved (and had therefore been off-set in the trays) were called back to the ledger sheets which were similarly off-set.

Examination of inaccuracies shewed that they occurred mainly when two of the four machines were out of order. A remedy, perhaps, would have been to have more machines. In view of the unqualified success of the changed routine one is, however, forced to the conclusion that the ledger-keepers themselves were not 100% efficient in machine operating, such that the additional check of the manual postings was really needed. Whilst the ultimate advantages of mechanised methods were worth striving for by getting machines into the bank even at an early stage of development in commercial education, it proved wiser to fortify this mechanisation in embryo by the buttress of an efficient check and control in pen and ink.

An additional and curious advantage also arose from the change. The handwritten statement sheets were first introduced by falling back upon a discarded stock of statement forms which had been part and parcel of the bank's system before mechanisation was introduced. These proved to be very much smaller sheets than those essential to machine posting (which need to carry columns for " pick-up " balances, etc.). The trays in which they were carried were also less cumbersome. It was found that the statement clerks could select the customer's sheet much more speedily than could the ledger clerks under the mechanised system, and a customer did not have to wait for so long a time before his cheque was " marked off " (in fact, of course, it was entered fully in the statement). This saved time and reduced congestion in the bank.

And this question of time in picking out ledger sheets is, indeed, a most important one. In a large office where very busy accounts are kept, the ledger-posting by machine effects a great saving in time and accuracy due in the main to the fact that as the operator may waste time in selecting the appropriate account, he can make up much of his speed by posting a whole string of entries, knowing, too, that the machine will throw out an arithmetically correct balance. By hand a long run of items means the possibility of mistakes in working the balances afterwards. Each account that has only a few postings daily, or even an odd item or two over the month, gives the ledger-keeper a much slower speed, due to the time taken in selecting and abstracting the account sheet. As an illustration of this has been cited the case of a Swiss bank which had so many large accounts that it was impelled to mechanise its book-keeping. Having done so, it observed that a large number of accounts which worked infrequently, and then only for odd items, was

slowing down the rate of posting. It arranged, therefore, that such accounts should be passed to a separate section of the ledger room, there to be posted by hand. In order to preserve the uniform system of checking and summarizing, the sheets were posted on a special frame under which was a carbon copy " tally-roll " to conform with the machine posting system. In a country responsible for the invention of the RUF system of book-keeping such a development is not surprising. It worked.

The typewriter has done much to improve the presentation of letters and forms, both for legibility and appearance. But it can promote bad habits. It creates the inevitable carbon copy on a separate sheet of paper. This in turn calls forth a filing system—not a bad thing in itself, but often used to accommodate unnecessary records. Much of the inter-office memoranda in banking could be more usefully dealt with by handwritten documents, and in many cases copies need not be retained. Where a copy is required, to ensure that some transient query is answered for example, a cheap Meme-with-carbon book, similar to that in which the old-fashioned shop-keeper made out bills for his customers, will suffice. When all the queries are dealt with, the book can be destroyed ; or, if the matters have any importance at all, the book constitutes an easy record to stack on a bookshelf in numerical or date order. Too much of the time of highly intelligent and well-paid secretaries is wasted on footling matters that could be dealt with expediently and well by methods that occupy less time than it takes to call the lady into the office. Too many files bulge with trivial papers which effectively submerge those appertaining to more important matters.

There is still scope for the use of more coin-sorting-and-counting machines ; and a perfect appliance for smoothing, stacking, counting and packaging Treasury notes has yet to be devised. Some large offices could very well support an effective system of inter-branch transmission of documents through a pneumatic or other type of carrying tube—the *Röhrpost* as used in German banks. Quaint as it may seem, too many cleaners appear to spend their lives stirring up the dust in some offices, when the ordinary domestic vacuum cleaner would remove the dust once and for all with less labour cost. Mechanisation has not developed in all directions at an even pace.

Recent Legal Decisions of Interest to Bankers

By C. B. Drover

COMPANY—AVOIDANCE OF DISPOSITION OF PROPERTY AFTER LIQUIDATION

RE T. W. CONSTRUCTION, LTD.

(1954 : 1 All E.R. 744 ; 1 W.L.R. 540 ; 98 Sol. J. 216)

On March 25, 1952, the managing director of T. W. Construction Ltd., a company carrying on business as dealers in plant and machinery, showed to Barclays Bank Ltd., who were the Company's bankers, a documentary credit covering the export of machinery by the Company. The amount to be received under the credit was approximately £1,300, and on the strength of this, the Bank granted the Company a temporary overdraft of £1,000 until April 15, 1952. The arrangement was that the credit would be collected by Leopold Joseph & Sons and applied in discharge of the overdraft.

On April 9, 1952, the Bank was advised that the credit had been extended until April 26, and agreed that the overdraft should be likewise extended. On May 2, the Bank was advised of a further extension of the credit until May 15, and agreed to a corresponding extension of the overdraft and also to the increase of the overdraft to £1,200.

On May 7, 1952, a petition was presented for the winding-up of the Company, and on that date the amount of its overdraft was £803. 11*s.* On May 9 the overdraft was increased by £165 for the purpose of paying wages, and on the same date, the managing director advised the Bank that he was going to America on business and that the machinery which was the subject of the credit would be shipped on May 11, shortly after which date Leopold Joseph & Sons would be paying the proceeds of the credit to the Bank.

On May 13 the winding-up petition was advertised in the *London Gazette* and on May 14 in *The Times*. On May 16 the Company obtained the Bank's permission to draw a cheque for £100 for wages and on May 20 the cheque was paid. On May 21 the Bank received £1,308, being the proceeds of the credit. On May 22 the Bank first became aware of the winding-up petition, when the manager of the branch concerned noticed a reference to it in *Stubbs' Gazette*.

On June 23 a winding-up order was made and on July 31 a liquidator was appointed.

On August 6 the liquidator took out a summons for an order that the payment of £1,308 to the Bank was void under Section 227 of the Companies Act, 1948, since it was a " disposition of the property of the Company . . . made after the commencement of the winding-up." The registrar ordered that the Bank should re-pay to the liquidator the sum of £803. 11*s.*, being the amount of the Company's overdraft immediately prior to the presentation of the petition.

On appeal, it was HELD by Wynn-Parry, J., that the granting of the overdraft and the arrangement whereby it should be repaid out of the proceeds of the credit, represented a transaction *bona fide* entered into in the ordinary course of current trade for the purpose of enabling the Company to continue its business and was accordingly for the benefit of and in the interests of the Company. That being so, this was a case where the Court should exercise the discretion conferred on it by Section 227 and validate the payment to the Bank. The order of the registrar was accordingly reversed.

Section 227 of the Companies Act, 1948, provides as follows :—

> " In a winding-up by the Court, any disposition of the property of the Company, including things in action, and any transfer of shares, or alteration in the status of the members of the company, made after the commencement of the winding-up, shall, unless the Court otherwise orders, be void."

Thus, the Court has a complete discretion to decide whether or not to validate a transaction, and the point which exercised the mind of the Court in the present case was what ought to be the principles which should guide the Court in exercising this discretion.

So far as bankruptcy is concerned, the Court has no discretion in deciding which transactions are protected (see Section 45 of the Bankruptcy Act, 1914), and the judge rejected at the outset a suggestion that the discretion under Section 227 ought to be exercised so as to follow Section 45 as closely as possible. In this the judge followed the judgment of Vaisey, J., in the recent case of *Re Steane's (Bournemouth) Ltd.* [(1950) 1 All E.R. 21], where he said :—

> " The legislature, by omitting to indicate any particular principles which should govern the exercise of the discretion vested in the Court, must be deemed to have

left it entirely at large and controlled only by the general principles which apply to every kind of judicial discretion."

On that basis, what were the principles which the Court ought to apply, and in order to answer that question, Wynn-Parry, J., had resort to the case of *Re Wiltshire Iron Co.* [(1868) 3 Ch. App. 443]. That was a case where a customer of a trading company had *bona fide* ordered and paid for goods, and the company had delivered the goods to the railway company and despatched the invoice, after the presentation of the petition but before the winding-up order. It was held that the disposition was complete before the winding-up order, and the goods were ordered to be delivered to the customer.

In his judgment, Lord Cairns said (referring to an equivalent section of the Companies Act then in force) :—

"This is a wholesome and necessary provision, to prevent, during the period which must elapse before a petition can be heard, the improper alienation and dissipation of the property of a company *in extremis.* But where a company actually trading, which it is in the interest of every one to preserve, and ultimately to sell, as a going concern, is made the object of a winding-up petition, which may fail or may succeed, if it were to be supposed that transactions in the ordinary course of its current trade, *bona fide* entered into and completed, would be avoided, and would not, in the discretion given to the Court, be maintained, the result would be that the presentation of a petition, groundless or well-founded, would, *ipso facto*, paralyse the trade of the Company, and great injury, without any counter-balance of advantage, would be done to those interested in the assets of the Company."

In the later case of *Re Park Ward & Co. Ltd.* [(1926) Ch. 828], the principles in the *Wiltshire Iron Co.* case were applied, the judge (Romer, J.) saying :—

"Lord Cairns evidently regarded the power given to the Court by the Section as one given for the benefit and in the interests of the Company, so as to ensure that a company which is made the subject of a winding-up petition may nevertheless obtain money necessary for carrying on its business and so avoid its business being paralysed."

That also was a case where between the presentation of the petition and the winding-up order moneys were advanced against the security of a debenture for the payment of wages. Comparing this case with the case now under review, Wynn-Parry, J., said (1 All E.R., at p. 747) :—

"Apart from the circumstance that in this case the bank did not go so far as to demand a debenture, the facts appear to me to have a distinct similarity. It is true that only part of the overdraft here was applied in the payment of wages, but it is clear from the evidence, and, to my mind, it is the only possible inference from the facts, that the accommodation arranged was arranged for a limited period for the express purpose of enabling the Company to continue to carry on its business. Therefore, to use the language of Romer, J., it was a transaction 'for the benefit of and in the interests of the Company.'"

And again, at page 748 :—

"It appears to me, viewing the evidence as a whole and drawing the inference that I do, that this was a transaction which is directly within the passage which I have read from the judgment of Lord Cairns in *Re Wiltshire Iron Co.*, and I can myself see no ground for distinguishing between the amount of the debt existing immediately before the presentation of the petition, viz., £803. 11*s*., and the amount by which the overdraft became increased after the presentation of the petition."

EDUCATIONAL SECTION

Monthly Problem

This month we publish the following problem submitted by a Barclays Bank reader in Smethwick, Staffs., to whom our usual award of one guinea has been sent. A further prize of one guinea is offered to the reader who submits the most satisfactory solution. All replies should reach The Editor, *The Bankers' Magazine*, 85 & 86, London Wall, E.C.2, not later than July 19, 1954.

" X, a valued customer of Southtown Bank, whilst visiting a supplier in an adjacent town pays into Northtown Bank for the credit of his account at Southtown Bank a cheque drawn on Northtown Bank for £125. Later in the same day, he returns to Southtown Bank and asks them to ascertain the fate of this cheque. They telephone Northtown Bank about 1 p.m. and enquire whether the given cheque has been paid. The Manager of Northtown Bank states that, although the drawer of the cheque is not short of funds, he cannot confirm payment until 3 p.m. in case any instructions to stop payment of the cheque may be received from the drawer. Is the Northtown Bank Manager correct in adopting this attitude? Can Southtown Bank demand a definite answer? Has the customer, X, any rights in the matter?

JUNE PROBLEM

Readers will recall that this read as follows :—

" Southtown Bank affords its customer, Z, accommodation up to a maximum of £2,000 taken on loan account, against the security of a legal mortgage over the borrower's residence, which is valued at £3,000. The mortgage is expressed to secure the ultimate balance due by Z to the bank on all accounts. When the loan account of Z is debit £2,000 and his current account is credit £270, the bank receives notice of a second charge on the property created by Z in favour of X. On the same day, a cheque for £150 drawn by Z on his current account is presented through the clearing for payment.

Is the bank justified in combining the loan account with the current account and dishonouring the cheque? If not, what should it do? "

We were sorry to find that only four readers attempted to solve this very practical security problem and they all omitted to consider the possible contention of the second mortgagee that the bank mortgage form was expressed to cover the ultimate balance owing by Z on all accounts. Nevertheless, the prize of one guinea has been sent to a District Bank reader in Nottingham, whose solution covered all the other points requiring consideration.

The complete answer may be summarised as follows :—

It is well settled that the notice of the second charge only takes precedence in respect of fresh advances. (*Hopkinson* v. *Rolt* (1861), 9 H.L.C. 514; *Deeley* v. *Lloyds Bank*, [1912] A.C. 756.) By special arrangement, Southtown Bank has lent £2,000 to

its customer Z on fixed loan account, allowing him to operate a separate current account on a strict creditor basis. In the opinion of the late Sir John Paget, the bank cannot therefore combine the accounts or refuse to honour the cheque for £150 which Z has drawn on his current account. The payment of this cheque would not constitute a fresh advance but merely the repayment by the bank of money lent to it by its customer Z. The loan account must be kept strictly separate to ensure that any subsequent payments into the current account by Z cannot be appropriated in reduction of the loan balance. Any overdraft granted thereafter on the current account would, of course, be a fresh advance postponed to the second charge, of which the bank has received notice. Should the bank ultimately find it necessary to realise the security in order to recover the loan monies, it would have to combine both loan and current account on the date when it demanded repayment, and the net balance of the two accounts would then be the maximum it could recover from the security.

It must be remembered, however, that the legal position set out above has not been proved in the Courts and X might claim that, as the form of charge was expressed to secure the ultimate balance due by Z to the bank on all accounts, the security was available only for the net balance obtaining on the day it received notice of the second charge. Nevertheless, in such event the bank could hardly dishonour the cheque for £150 presented on the same day as it received notice of the second charge. If the borrower had agreed in the charge not to create any encumbrances on the security, his breach of covenant would be adequate reason for demanding repayment of the loan and thereby obtaining the right to combine both the accounts. Presentation of the given cheque for £150 on the same day does not, however, allow the bank time to serve due notice on Z of their intention to combine the accounts.

In practice, the cheque could be paid without question, but prudence might dictate that an acknowledgement should be obtained from the second mortgagee confirming that the bank security covers the full amount of £2,000 outstanding on the loan account.

Banking Diploma Examination, 1954

Finance of Foreign Trade and Foreign Exchange

This was quite a reasonable paper, candidates being given a good choice of questions and emphasis being placed on the practical, rather than the theoretical aspects of the subject. Whereas in past years there was a tendency for the questions to be rather of a theoretical nature all questions now are essentially practical ; to that extent preparation for the examination should be the more beneficial to candidates in enabling them to deal with problems relating to foreign trade and foreign exchange which might come their way in their banking lives.

As has become traditional, the first question is obligatory and arithmetical (this was the only question in which any arithmetical working was required) and candidates were required to answer four other questions from a choice of seven. The arithmetical question was based on dealings in foreign exchange in various centres and was set in

the pattern of the greater freedom in dealing which is now allowed and the recent re-introduction of arbitrage with certain centres.

The old favourite Forward Exchange once again made its appearance, and the form of the question could scarcely have been simpler. The other questions covered a wide spread of the problems of Foreign Exchange, and not from a theoretical point of view. It is well recognised that this is a difficult subject for students, especially as the great majority of them do not come across such problems in their daily work, but the questions followed the syllabus, and students who adhered to the syllabus and also followed current banking and financial literature in connection with recent developments in the subject should not have the disappointing experience of having to present themselves for examination again next year.

QUESTION 1.—*A dealer in the London Foreign Exchange Market is long of 200,000 Dutch guilders. He obtains the following quotations :—*

London quotes guilders	10·63¼–⅜
Holland quotes sterling	10·63 3/16–5/16
Switzerland quotes guilders	114·64–68
London quotes Swiss francs	12·18⅝–⅞

In which centre can he dispose of the currency at the best rate? In your answer show the rates at which he could work in each centre, and your workings. (Ignore any question of brokerages and commissions.)

The dealer could sell Dutch guilders in the various markets at the following rates :

In London	10·63⅜
In Holland	10·63 5/16
In Switzerland.	114·64 against Swiss francs

The "cross rate" for guilders against sterling is based on the selling rate of guilders in Switzerland of 114·64 and the selling rate of Swiss francs in London of 12·18⅞.

The workings for the "cross rate" are as follows :—

114·64 Swiss francs		100	guilders	114·64)1218·875(10·632196
				11464
1 Swiss franc		100/114·64	guilders	72475
				68784
				36910
12·18⅞ Swiss francs	100	12·18875/114·64	guilders	34392
				25180
				22928
		1218·875/114·64	guilders	22520
				11464
				110560
				103176
		10·632196 guilders		73840

The relative rates for the deal are therefore as follows :—

In London	10·63375
In Holland	10 633125
Through Switzerland	10·632196

It is therefore in Switzerland that he can dispose of his currency at the best rate, that being the centre which yields him the greatest amount of sterling for his guilders.

QUESTION 2.—*Discuss briefly the importance of the Bill on London in relation to foreign trade and give examples of its use.*

The importance of the bill on London is closely linked with the high importance of sterling as an international currency. Owing to the magnitude of foreign trade transactions within the sterling area itself and the extent to which other countries buy and sell in terms of sterling that currency is the one which is used in something over one-half of international trade transactions. Such trade between nations results in one form or another in a bill being drawn in sterling, and therefore on London.

Another factor in the importance of the bill on London is the high reputation of the British banks for their skill, experience and integrity, so making documentary credits issued by them to finance overseas shipments—and these result in bills being drawn on London—readily acceptable in all parts of the world. A further incentive to other countries to use London is the relative cheapness of the financial facilities there provided. London is traditionally a cheap financing centre and though in recent years a few other centres have come to compete in these terms—Holland and Belgium are now as cheap if not cheaper than London—commissions and interest charges in London are, in general, considerably lower than those ruling in practically all other financial centres. Moreover, there are in London unsurpassed facilities for dealing in bills, the discounting facilities offered on the London market being more highly developed than in any other financial centre.

From a wider point of view the bill on London is also of great importance to the British economy in that it is the means by which British banks swell the volume of the country's invisible exports by their earnings from abroad.

Examples of the use of the bill on London are as follows :—

1. A considerable proportion of the *import* trade of the U.K. is financed by documentary credits opened by the British banks, on behalf of their customers in this country, in favour of shippers abroad. On making shipment under these credits the exporters abroad draw bills at sight or acceptance under the credits.

2. Where British *exports* are financed by means of credits the finance takes the form of overseas banks asking British banks to open their credits in favour of the British exporters, or of advising their own irrevocable credits through the British banks. In each case the British exporter after shipping his goods will draw a bill on London.

3. The trade between two countries both outside the sterling area is often financed in terms of sterling and by means of credits opened by British banks, and these result in the drawing of sterling bills. When Sweden buys coffee from Brazil, for example, the shipments are often financed in sterling by the opening of a credit by a British bank. The bill would be drawn in sterling by the Brazilian exporter on the London bank, reimbursement being eventually made from Sweden.

4. British banks, mainly the merchant banks, are prepared in certain special cases to give lines of credit to overseas importers who are buying from another country, e.g. the Lazards wool credit for France which has now been running for some five years. These lines of credit result in drafts being drawn on British banks by the overseas merchants, the drafts usually being discounted and the proceeds used to pay the suppliers.

QUESTION 3.—*Give a short description of forward exchange. How do the banks cover their forward operations? What effect, if any, do short-term interest rates in the relative centres now have on forward quotations?*

Forward exchange is the term applied to the purchase and/or sale of other currencies for delivery at some time in the future, the rate of exchange being determined in advance. The purpose of forward exchange contracts is to enable merchants and traders, once they are committed on commercial transactions which have been arranged in currencies other than their own, to eliminate the risks arising from fluctuations in rates of exchange. Forward exchange deals provide for foreign currency being delivered at either fixed dates—usually at periods of one month up to six months—or for delivery over a period at the customer's option. In an option contract the option relates not to whether the foreign currency will in fact be delivered or taken up but to the date on which the transaction will be finalised.

Where quotations are made for forward transactions in other currencies they are quoted in terms of premium or discount on the spot rates. Whether another currency is quoted at a premium or a discount on the spot quotation, and the extent of that premium or discount, depends on (*a*) demand and supply for the forward currency, (*b*) the relative levels of interest rates in the two financial centres concerned, (*c*) economic, financial and political conditions in the two centres, and (*d*) the general estimation as to whether one currency will appreciate or depreciate in terms of the other over the next few months.

Deals in forward exchange may be made only when there is a commercial background to the transaction, and these deals must be made through authorised dealers. Before the war this was not so and speculation in currencies was facilitated by the existence of the forward market.

Banks cover their forward operations by "marrying up," wherever possible, forward purchases and forward sales. Where there is any balance left after the marrying-up process forward sales are covered by forward purchases (outright or through swaps) or by spot purchases, and vice versa. The covering of forward options is rather more complicated but it it based on the same principles.

Short-term interest rates in the relative centres now have not so much effect as formerly on quotations for forward exchange. This is due partly to the limits placed by exchange control authorities on the size of spot currency balances which may be held abroad. As much as anything, however, it is due to the fact that people and institutions are now more concerned with the security of their capital than with its yield, with the result that general economic, political and psychological factors are now more important

in determining quotations for forward exchange than the short-term interest rates in the relative centres.

QUESTION 4.—*A British merchant who is entering the export trade asks for information on the ways of covering the various financial risks involved. What advice would you give him? Describe briefly any special facilities available to British exporters.*

Advice to a British merchant who is entering the export trade and asks for information on the ways of covering the various financial risks involved would take the following form :—

1. Before entering into financial relationship with a buyer abroad he should first obtain from his bank an up-to-date report on the financial standing and integrity of the importer. Through its wide network of agency arrangements with other banks abroad his bank will readily, and freely, obtain this information for him.

2. He should arrange for payment to be made in sterling, as he thus avoids the risks of unforeseen fluctuations in rates of exchange. If the foreign buyer insists on paying in his own currency, and conditions of the market are such that the exporter has to accept currency rather than sterling, the British exporter should sell the currency forward to his bank under a forward contract.

3. He should try to arrange for payment to be made under a confirmed credit to be opened in his favour by a British bank. He is thus certain of receiving payment for his goods provided only that he obeys the condition of the credit, conditions which in fact originate from the terms of his own contract with the buyer abroad. The most favourable form of confirmed credit would be one providing for payment at sight. If an acceptance credit must be taken he may still obtain immediate cash by discounting the bank acceptance (in such cases he should, if possible, arrange for the buyer to pay the discount and stamp charges, either directly or by their being included in the invoice price).

4. If the foreign buyer is not prepared to arrange for the opening of a British bank's confirmed credit the exporter should consider covering his contract with the Exports Credits Guarantee Department. Such a guarantee would cover him against almost all the financial risks involved. A " contracts " policy would provide cover from the time the contract is entered into, whilst a " shipments " contract would provide cover only from the time of shipment. Maximum cover provided by the E.C.G.D. is 90 per cent. in respect of insolvency of the buyer or protracted default, and 85 per cent. in respect of other risks such as the non-provision of sterling by the buyer's governmental authorities, the imposition of new exchange and import restrictions which prejudice the import, outbreak of war, etc.

5. On the strength of E.C.G.D. cover the exporter's bank would probably be willing to negotiate documentary drafts drawn on the buyers or to grant to him acceptance credit facilities against hypothecation of the relative documentary drafts.

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July, 1954

QUESTION 5.—*A customer who is buying wool from Australia asks your bank to arrange the financial part of the transaction for him and in addition to make facilities available to his Australian supplier to enable him to purchase the wool some time before it is ready for shipment. Explain what you would do to satisfy your customer's requirements.*

A well-established banking practice exists to finance the buying of wool from Australia with the additional facility of the Australian supplier receiving cash at an early date so as to enable him to purchase the wool some time before it is ready for shipment. If its customer is of satisfactory standing, a British bank would open for his account through one or other of its banking correspondents in Australia a documentary credit in favour of the Australian shipper. The credit could provide for payment to be made at sight or at usance. The British bank would take a letter of hypothecation from the customer when opening the credit.

So far the procedure is no different from that under which any import of goods is financed by means of a British banker's credit. For the Australian wool trade, however, special facilities exist known as those of the "Red Clause." Under this system the credit would contain a special clause (called the "Red Clause" simply because it is usually typed in red) which authorises the Australian bank through whom the credit is passed to make advances against some form of trust receipt to the beneficiary prior to the shipment of the goods covered by the credit. When the wool is shipped drafts are drawn on the Australian bank. They are presented to the bank with the relative shipping documents, they are negotiated and the proceeds of the negotiation go to liquidate the advances previously made.

Documentary drafts drawn under the credit are paid and or accepted by the British bank on due presentation to them by the Australian bank and the shipping documents are passed on to the customer against cash or debit to his account, or under a "Trust Receipt," according to the arrangements made with the bank.

The above procedure has the advantages of enabling the importer to take delivery of the wool as soon as it arrives in this country (the shipping documents would have come by airmail whilst the wool would have come by sea) and also the Australian supplier would be provided with cash with which to buy the wool, usually at the wool auctions, before he is in the position to present shipping documents.

QUESTION 6.—*Give an account and explanation of the relaxations announced in the autumn of* 1953, *of restrictions on the granting of credit facilities abroad by British banks.*

A basic factor in the pre-eminence of London as a financial centre is the credit facilities provided by the British banks to banks and other financial institutions abroad. Before the war there were virtually no restrictions on the extent to which British banks could grant such facilities. With the institution of exchange control, however, such

facilities may be made only under the regulations and the directives in force at the time on the part of the exchange control authorities.

On various occasions in recent years restrictions on the granting of such facilities have been ruled by official policy relating to general financial conditions and the position of sterling. In the spring of 1953 sterling was relatively weak and it was felt that some countries and some institutions abroad were misusing credit facilities obtainable in London in order to " bear " sterling. Accordingly the Chancellor of the Exchequer in his budget speech of April, 1953, introduced various restrictions on the granting of credit facilities abroad by British banks. The relaxations announced by the Bank of England in the autumn of 1953 were largely a repeal of the restrictions introduced in the spring of that year. The relaxations, which are still in force, took the following form :—

1. British banks may now accept drafts at 120 days sight covering the shipment of goods where such a tenor had become usual. This permissible acceptance at 120 days sight is generally interpreted as being applicable only to " long shipments " of goods, as for example shipments of wool from Australia to European countries and shipments of tin and rubber from the Far East. For " short shipments," e.g. shipments between European countries, 90 days is the usual maximum for the tenor of acceptances under facilities granted by British banks.
2. Re-finance is now again permitted where it had become a usual method of finance. Under the procedure of re-finance the drafts at usance are drawn on the British bank opening the credit not by the exporter but by the importer, and full advantage is taken of discount rates ruling in London. It had been felt that through the allowance of re-finance facilities certain countries had unduly delayed their sterling payments. Re-finance was accordingly disallowed in the spring of 1953, but re-introduced in the autumn with the growth in confidence in sterling. However, re-finance is not now such an attractive proposition to overseas countries as formerly, owing chiefly to the rise in discount rates in London, and little advantage has been taken of this recent relaxation.
3. The granting of pre-finance facilities by British banks will now be favourably considered by the Bank of England where this method of finance was formerly traditional, and new cases also will receive consideration Under the pre-finance procedure cash is made available to shippers in countries abroad before they have shipped their goods. This is not a method of finance which finds favour with the British commercial banks and little use has been made of this recent relaxation.
4. Against the policy which had so far ruled, overdrafts may now be permitted to non-residents for short periods. They may be made only with the permission of the Bank of England, and this authorisation is likely to be given sparingly, as for example where export trade from the U.K. for any other part of the Scheduled Territories would be " frustrated " by reason of the lack of such facilities. It is understood that few cases of overdrafts to non-residents have in fact been allowed by the Bank of England since the announcement of the relaxations.

QUESTION 7.—*What progress has been made since the end of the war in freeing sterling as a means of making payments between different countries? State broadly the restrictions which are still operative.*

Sterling is the most widely used currency in the settlement of international debts. It is regrettable that the effect of exchange control is to restrict this international use of sterling. The authorities, however, are conscious of the fact that if sterling is to maintain its prominent position in international trade it must be made as freely useable as possible. Restrictions on its use by other countries have been eased step by step in the post-war years and the position now is as free as it has been at any time since the institution of exchange control in 1939.

The progress made in this process of freeing sterling may be briefly recounted as follows :—

1. Payments in sterling by all residents outside the Scheduled Territories may be made to the U.K. and the rest of the Scheduled Territories quite freely. Such payments may be made irrespective of the origin of the debt or of the nature of the transaction.

   Payments may be made by one part of the Scheduled Territories to another without restriction except in so far as certain parts of the area may have introduced minor restrictions for special reasons.

2. In 1947 the transferable account system was introduced under which countries which are members of this group may freely make payments in sterling between themselves, provided sterling from a transferable account is used.

3. In 1951 transferable account facilities were offered to all member countries of the European Payments Union and as a result the area of the transferable account system was extended.

4. In 1952 American and Canadian sterling accounts were made interchangeable so far as payments in sterling were concerned.

5. In March, 1954, the "unification of sterling" measures were introduced.

   The effect of this was considerably to extend the system of transferable accounts.

   So far as sterling payments are concerned there are now only 4 groups of countries.

   (*a*) Scheduled Territories.

   (*b*) American and Canadian Accounts.

   (*c*) Transferable Accounts.

   (*d*) Persia, Hungary and Turkey, which for special reasons were excluded from the "unification" measures.

6. Short of converting their sterling into dollars and/or making payments to American and Canadian accounts other countries of the world now suffer very few restrictions on freedom to transfer sterling between different countries. The only restrictions suffered by other countries are now in fact those which would involve the sterling area itself providing dollars in exchange for sterling.

QUESTION 8.—*Write short notes on the following :—*

(*a*) *A confirmed irrevocable credit.*

(*b*) " *Exchange as per endorsement.*"

(*c*) " *Full set* " *of shipping documents.*

(*d*) *An exchange swap.*

(*a*) A confirmed irrevocable credit is a documentary credit opened by one bank on the instructions of another, the undertaking on the part of both banks being irrevocable. The commonest examples of such credits are those opened by British banks in favour of British exporters, the British banks acting as agents for the banks abroad who themselves would be acting for the importers. In these cases the bank abroad would instruct the British bank to pass on its irrevocable undertaking and would ask the British bank to add its own confirmation. Such a credit would accordingly carry the firm undertaking of the two banks. The advantage to the beneficiary of such a credit is that once he has received the credit the terms of it, and indeed its very existence during its validity, may not be cancelled or altered in any way without his consent.

(*b*) " Exchange as per endorsement " is a clause used in respect of bills drawn in sterling by British exporters on their buyers abroad, almost without exception in Australia, New Zealand and South Africa. The clause is used for the purpose of fixing the rate when the draft is negotiated with the London office of the colonial bank. The bank at that stage fixes the rate of conversion of the sterling into the foreign currency and endorses the bill accordingly. Basically that rate is the London office's rate for buying bills at that particular tenor, e.g. 3 months after sight.

Whether the draft goes forward as an ordinary sterling draft or is claused " exchange as per endorsement " is of concern to the drawee rather than the drawer, as under the first alternative the exchange would be fixed only on the date of payment say in Australia, whereas under the second the exchange would be fixed long before the drawee saw the bill and its accompanying documents.

In the event of such a claused bill being unpaid and the negotiation being debited back to the U.K. exporter, he may be faced with a difference on the exchange.

(*c*) The expression, a " full set " of shipping documents, is a term sometimes used in connection with the documents to be presented under a banking documentary credit. The expression is ambiguous in that the precise documents it covers depends on the terms of the contract underlying the credit, i.e. c.i.f., F.O.B., &c., and also certain importing countries require additional documents such as Consular Invoices, etc.

Basically the shipping documents required for presentation under a documentary credit covering a consignment of goods under a c.i.f. contract would be :—

1. Bills of lading, preferably a full set, clean, " on board," freight paid, and relating to a current shipment of goods. Bills of lading are usually issued in sets of 3. A forwarding agent's receipt would not be acceptable unless specifically authorised under the credit.
2. An insurance policy covering the shipment of the goods. A policy is usually demanded, although a certificate of insurance is acceptable if specifically

authorised by the credit. The insurance document should be of recent date and clearly cover the consignment of goods specified in the credit. It should also cover the full invoice value of the goods, and preferably 10 per cent. more, and should be expressed in the same currency as is the invoice.

3. The commercial invoice, signed by the seller. It should clearly relate to the particular transaction and the particular goods, and the invoice should include information relating to the particular goods, i.e. number of bales or packages, gross and net weight, together with a description which exactly corresponds with the terms of the credit. Marks and numbers should appear on the invoice and should agree with the other documents.

4. Other documents such as consular invoices, certificates of origin, weight notes, etc., which are usual in certain trades and in respect of the shipment of certain kinds of goods.

(*d*) An exchange swap is the term applied to a transaction in foreign exchange dealing where a spot purchase or sale is matched with a future sale or purchase for the same amount of currency. An exchange swap comes into being, for example, when a dealer or a holder of foreign currency does not require the use of that currency for, say, three months. By selling it spot and buying it back forward he obtains the use of the other currency for, say, three months, but he regains the original currency on the maturity of the forward purchase. Exchange swaps are also used to cover exchange risks on the holdings of foreign currencies. For example, a dealer who wishes to maintain a certain amount of another currency without the risk of loss through fluctuations in rates of exchange may buy the currency spot but at the same time sell it forward. If he wishes to continue his holding of the currency after the maturity of the forward purchase he would repeat the operation at that time.

Book Reviews

The Stock Exchanges. By T. R. MAGUIRE, A. F. B. COOKE, A. H. CARNWATH and Professor F. W. PAISH (London: The Institute of Bankers. Pp. 76. 3s.)

FOUR Spring Lectures delivered before the Institute of Bankers in March and April, 1954 have been brought together in this short book, which covers a wide range of subjects connected with the stock markets. No attempt is made to give an exhaustive examination of the stock exchanges and their work, but an authoritative account is given of stock exchange operations, new issue technique, and of the place of security dealings in the national economy. Mr. Maguire, a member of the Council of the London Stock Exchange, in his lecture on "Operations and Technique," gives an expert description of the history and organisation of the "House," laying particular emphasis on its essential function of creating and maintaining a free market for the purchase and sale of securities. He records the ever-growing sense of responsibility with which the Stock Exchange acts and touches on the part it has played in raising the general standard of company practice. This latter theme is elaborated by Mr. Cooke, who, as secretary of the Share and Loan Department gives an inside account of the severe "vetting" which all securities receive before permission is given to deal in them. This lecture describes the changes that have occurred since the time, not very long ago, when almost any new stock or share could be admitted to stock exchange dealings after compliance by the sponsors with a few simple formalities. The principle of *caveat emptor* was relied on at that time far more heavily than it is to-day. One effect of the extreme care now taken to see that only reasonably sound securities are handled on the stock markets is a great improvement in the standards of integrity in company promotions, the shady company promoter, who flourished up to the time of the first world war, having now largely disappeared. It may be added that the *Prevention of Fraud (Investments) Act* of 1939, as well as Stock Exchange action, has of course, contributed very largely to his disappearance. Another

point made by this lecturer is that the Stock Exchange control of new securities to-day is more stringent than company law, but at the same time is more flexible, and can therefore be applied more effectively. For this reason, the Cohen Committee on Company Law was content to leave some important matters of company practice to what they termed "the more flexible machinery of the Stock Exchange."

Dealing with the relationships of the stock exchanges with other financial institutions, Mr. Carnwath, of Baring Brothers and Co., brings out the immense amount of time and energy expended by issuing houses before an issue of new capital can appear before the public. He also provides instructive estimates of the volume of business reaching the stock exchanges from different classes of investor, such as the private individual, the investment trusts, and the insurance companies.

In a lecture on the economic functions of the stock exchanges, Professor Paish emphasises the value of the speculator, and gives a lucid and informative account of the function of speculation in the commodity and metal markets through dealings in "futures." He then makes the rather startling suggestion that facilities for "futures" dealings in securities should be developed by the stock exchanges, and shows how, in hypothetical cases, these would be valuable by reducing the risks of investment. Professor Paish admits that such operations would be more difficult in security than in commodity markets. One difficulty, of course, is that whereas commodity markets deal in well-recognised and standardised grades of produce, the stock markets handle an enormous number of widely diverse securities. Whatever the market effect of putting his ideas into practice, one certain result would be a great addition to the ammunition at the disposal of Socialist critics of the City and its doings.

London. A. H. DAY

Statistics as Applied to Accounting Data. Edited by C. R. CURTIS. (London: Sweet & Maxwell Ltd. Pp. 156. 22s. 6d.)

MOST accountancy bodies examine entrant candidates in the subject of Statistics. Consequently, any book intended for the professional accountant would, we should have imagined, assume a knowledge of the more elementary aspects of the subject. None the less, Dr. Curtis feels that his readers will need guidance *ab initio*, and almost half the book is given up to what should have been taught during the student's first year of statistics. The second half includes seventy pages in which the author (and the printer) get down to the advertised purpose of the book. Here we have an extremely useful survey of the methods of displaying such facts as statistical analysis may have elucidated. This part is handsomely done, and goes a long way towards justifying the rather high price asked for a textbook for beginners.

The Journal of Finance and Credits. (Frankfurt am Main: Verlag Fritz Knapp, May 1954, Pp. 44. DM 2.)

THIS journal is published by the editors of the *Zeitschrift für das gesamte Kreditwesen*, who have reprinted in English some of the more interesting articles which have appeared in German in their fortnightly review. It is presumably their intention to issue this English edition twice a year, as the articles contained in this special issue have appeared during a period of six months.

There is no doubt about the very high standard of the articles which have been selected. There are three articles on equity shares, one each for America, Switzerland and Holland, which will be of particular interest to those English readers who have given any thought to the future of the British investor. These articles, written by different authors, are comprehensive and lucid surveys of investment problems in the countries concerned, and there is more than passing interest in Dr. Rosenstiel's remark that the New Deal legislation was primarily responsible for a dearth of equity capital in the United States. In addition to these articles, there is an International Banking Survey which covers Germany, Belgium, Switzerland and England. There is perhaps little merit from the English reader's point of view in including a section on British banking, since so much material is already available to English readers, even in the United States. Although the survey of foreign banking is not so extensive as is usual in English financial journals, the general standard of information is higher than in some—this is particularly true, as could be expected, of the section on Germany.

The main criticism is to be directed not against the content of the articles, but against the translation. It could, for example, be doubted whether "The Journal of Finance and Credits" is the best translation of "Zeitschrift für das gesamte Kreditwesen". It would perhaps be better to make a freer translation, say, "Banking and Finance". Here and there throughout the text, too traces of the original German can be seen beneath the English translation. While this may give a touch of authenticity, it may offend the purists who are always *bei uns*. The editors of the *Zeitschrift für das gesamte Kreditwesen* are, however, to be congratulated on their publication.

Lombard Street. **ALEXANDER MILTON**

July, 1954

Banking Appointments, etc.

BARCLAYS BANK LIMITED

Exeter District, L.H.O. .	Mr. R. F. Barclay, attached to Exeter L.H.O., to be a Local Directors' Assistant.
Luton District, L.H.O. .	Mr. H. U. A. Lambert, attached to Head Office, Advance Department, to be a Local Directors' Assistant.
Head Office, Inspection Department.	Mr. C. A. Cripps to be Assistant Chief Inspector.
Head Office, Trustee Department.	Mr. J. A. Whittaker, from Norwich, to be Manager of Shrewsbury Branch.
Bow . .	Mr. F. M. Dove, from Commercial Road, to be Manager.
Commercial Road	Mr. J. H. Holmes, from Oxford Circus, to be Manager.
Edmonton, Lower .	Mr. C. E. Hill, from Ponders End, to be Manager.
Palmer's Green, Green Lanes.	Mr. A. W. Elmes, from Knightsbridge, to be Manager.
Penge . . .	Mr. W. R. Herring, from Upper Tooting and Wandsworth Common Branches, to be Manager.
Ponders End . .	Mr. H. S. Lovell, from Green Lanes, Palmer's Green, to be Manager.
Shepherd's Bush, Goldhawk Road.	Mr. R. W. Justice, from King's Cross, to be Manager.
Tooting, Upper and Wandsworth Common.	Mr. F. C. Cochrane, from Eastcastle Street, to be Manager.
Vauxhall Bridge Road .	Mr. M. J. Dowd, from Goldhawk Road, Shepherd's Bush, to be Manager.
Birkenhead, Charing Cross	Mr. C. W. Marsh, from Great Crosby, to be Manager.
Bridgnorth and Much Wenlock.	Mr. F. L. Hoverd, from Tenbury Wells, to be Manager.
Brightlingsea .	Mr. J. L. P. Price, from Colchester, to be Manager.
Bury St. Edmunds	Mr. C. L. Williams, from The Pantiles, Tunbridge Wells, to be Manager.
Leighton Buzzard .	Mr. T. E. Sawyer, from Newport Pagnell, to be Manager.
Liverpool, Bold Street	Mr. W. H. Stephenson, from Walton Road, Liverpool, to be Manager.
Liverpool, Walton Road	Mr. H. Smith, from Birkenhead, Charing Cross, to be Manager.
Monkwearmouth . .	Mr. K. Whillance, from Newcastle-upon-Tyne, Byker, to be Manager.
Morecambe and Morecambe, West End.	Mr. G. H. Yates, from Birley Street, Blackpool, to be Manager.
New Brighton . .	Mr. H. E. Wickes, from Bold Street, Liverpool, to be Manager.
Newport Pagnell	Mr. B. J. Sear, from Bedford, to be Manager.
Ponteland	Mr. H. G. Robinson, from Hexham, to be Manager
Shrewsbury	Mr. C. B. Cross, from Bridgnorth and Much Wenlock Branches, to be Manager.
Stroud	Mr. H. N. Harvey, from Milsom Street, Bath, to be Manager.
Tenbury Wells . .	Mr. J. W. Bray, from Hereford, to be Manager.
Tunbridge Wells, The Pantiles.	Mr. W. T. Allan, from Stroud, to be Manager.
Oxford Circus .	Mr. C. L. Chart to be Assistant Manager.
Bedford . . .	Mr. F. B. Barrett to be Assistant Manager

BARCLAYS BANK (DOMINION, COLONIAL AND OVERSEAS).—Mr. C. F. Lewis to be a Member of the London Committee.

LLOYDS BANK LIMITED

Head Office . . .	Mr. A. H. Ensor, a Chief General Manager, is retiring on June 30, 1954, after 46½ years' service. Mr. G. Y. Hinwood, Assistant Chief General Manager, to be a Chief General Manager. Mr. H. B. Lawson, M.C., Principal, Legal Department, to be Assistant Chief General Manager. Mr. P. T. D. Guyer, an Assistant General Manager, to be a Joint General Manager.
Executor and Trustee Department, 39, Threadneedle Street, E.C.	Mr. C. J. E. Coulson, from Bristol, to be an Assistant Manager.
Bristol	Mr. R. S. Hall to be Sub-Manager.

Chelmsford	Mr H. J. Davidson, from 39, Threadneedle Street, E.C., to be Manager.
Reading	Mr. E. G. H. Brown to be Sub-Manager.
Worcester	Mr. J. C. Palmer to be Sub-Manager.
Bromley, Kent	Mr. A. Johnson, from Pangbourne, to be Manager.
Chippenham	Mr. H. R. Tanner, from Westbury, to be Manager.
Clarendon Road, Southsea	Mr. D. V. Bassett, T.D., to be Manager.
Derby	Mr. J. S. Ellis, of Inspection Staff, to be Sub-Manager.
Eastern Branch, E.	Mr. J. E. H. Barnfield, of Inspection Staff, to be Sub-Manager.
Forest Hall and Benton	Mr. J. A. Parmley, from Gosforth, Newcastle-upon-Tyne, to be Manager.
Great Missenden	Mr. A. J. Tilbury, from Desborough Road, High Wycombe, to be Manager.
Guernsey	Mr. A. R. M. Straw, from New Street, Birmingham, to be Sub-Manager.
Hastings	Mr. P. K. Buckley, from Foleshill, Coventry, to be Sub-Manager.
Law Courts, W.C.	Mr. G. A. Kemp, of Inspection Staff, to be Sub-Manager.
Lowestoft	Mr. W. R. Benham, from Hastings, to be Manager.
Market Weighton	Mr. A. H. Rose, from Wainfleet, to be Manager.
Paddington, W.	Mr. F. E. Ruffell, from Eastern Branch, E., to be Manager.
Pangbourne	Mr. W. H. Bean, from Basingstoke, to be Manager.
Penarth	Mr. F. J. Bussell, from Merthyr Tydfil, to be Manager.
Shaftesbury	Mr. K. F. E. Blake, from Guernsey, to be Manager.
Southwold	Mr. A. J. Gower, from Cambridge, to be Manager.
Stock Exchange, E.C.	Mr. J. G. Rudge, of Inspection Staff, to be Sub-Manager.
Yeovil	Mr. R. W. L. Price, from District Office, Exeter, to be Manager.

Martins Bank Limited

Appleby	Mr. H. B.-P. Williamson to be Manager.
Birmingham, Markets Branch.	Mr R. M. Whitlock to be Manager.
Nottingham, Victoria Street	Mr. E. R. Carr, from Birmingham, Markets Branch, to be Manager

Midland Bank Limited

Head Office	Mr. J. F. Stott, of 62, Castle Street, Liverpool, to be a Superintendent of Branches.
	Mr. A. M. Anderson to be an Assistant Head Office Accountant.
	Mr. R. F. Mountain, of Temple Row, Birmingham, to be District Staff Superintendent (North Eastern Section).
London : Charing Cross	Mr E. F. S. Bailey, of King's Cross, to be Manager.
London : Clapham High Street.	Mr. I. W. C. Sanders, of Tooting Junction, to be Manager.
London : Tooting Junction.	Mr. A. G. Llewellyn to be Manager.
London : West Smithfield	Mr. J. V. Coles to be Assistant Manager.
Birmingham: King's Heath	Mr. F. P. Pearson, of Lichfield Street, Wolverhampton, to be Manager.
Frome	Mr. J. Price to be Manager.
Liverpool : 62, Castle Street.	Mr. J. S. Ash to be Assistant Manager.
Macclesfield	Mr. R. Courtney, of Liscard, Wallasey, to be Manager.
Newcastle-on-Tyne : Mosley Street.	Mr. B. H. Dyson, of Grainger Street, Newcastle-on-Tyne, to be Manager.
Newcastle-on-Tyne : Grainger Street.	Mr. H. R. M. Henderson, of South Shields, to be Manager.
South Shields	Mr. J. L. Charlton, of Wallsend, to be Manager.
Wallsend	Mr. V. R. Wilson to be Manager.

National Provincial Bank Limited

Head Office	Mr. M. L. Dix-Hamilton to be Resident Solicitor.
Bow	Mr. F. J. Freshwater, from City Road, to be Manager
Kilburn	Mr. A. G. M. Gillings, from Great Tower Street, to be Manager.
Margaret Street, W.1	Mr. C. F. Beckley, from Lime Street, to be Manager.
Queen's Park, Bournemouth.	Mr. J. J. Caldon, from Boscombe, Bournemouth, to be Manager.
Budleigh Salterton	Mr. E. L. Hartley, from Walmer, to be Manager.
Dagenham	Mr. A. J. Burnley, attached to Inspection Department, Head Office, to be Manager.

Luton	Mr. L. G. Lindley, from Sheffield Bank Office, Sheffield, to be Manager.
Mirfield	Mr. W. Mortimer, from Gateshead, to be Manager.
Redditch	Mr. D. B. Thomas, from Denbigh, to be Manager.

ROYAL BANK OF SCOTLAND

Broughton District, Edinburgh.	Mr. J. W. Boag, from Head Office, to be Manager.
Grantown-on-Spey	Mr. Robert Thomson, from Cupar, to be Manager.

THE UNION BANK OF SCOTLAND, LIMITED

Thornhill	Mr. Donald Kerr Morrison, from Dunfermline, to be Manager.

WESTMINSTER BANK LIMITED

Head Office	Mr. G. H. Loxton, from Acton Vale, to be an Inspector of Branches
	Mr W. T. Barkus, from Thurland Street, Nottingham, to be an Inspector of Branches.
Acton Vale	Mr. C. T. Thompson, from Lombard Street Office, to be Manager.
Atherton & Tyldesley	Mr. F. Richardson, from Dukinfield, to be Manager.
Birmingham and Bearwood	Mr. A. N. Lawrenson to be Manager.
Birmingham	Mr. P. B. Collins, from West Bromwich, to be Assistant Manager.
Brighton	Mr. W. S. Bidmead, from Romford and Collier Row, Romford, to be Manager.
Canning Town and Silvertown.	Mr J. W. Rothon, from Finsbury Square, to be Manager.
Carrington Street, Nottingham.	Mr. R. Harrison to be Manager
Chatham	Mr. L. Fry, from Sheerness, to be Manager.
Crewe, Market Street	Mr. H. T. Lindop, from Hightown, Crewe, to be Manager.
Dartford and Swanley, Kent.	Mr. A. F. Fergus, from Erith, to be Manager.
East Ham	Mr. H. B. Gooderham, from Bloomsbury (Pari's), to be Manager.
Erith	Mr. S. F. Farr, from Southwark, to be Manager.
Hunslet	Mr. G. W. Wilding to be Acting Manager.
Ormskirk	Mr. L. T. Turnor, from Northwich, to be Manager.
Romford and Collier Row, Romford.	Mr. C. R. Peachey, from Dartford and Swanley, Kent, to be Manager
Sheerness	Mr. P. G. Knight to be Manager.
Stokes Croft	Mr. J. V. Faull to be Manager.
Thurland Street, Nottingham.	Mr. J. L. Matthews, from Carrington Street, Nottingham, to be Assistant Manager.
Walthamstow	Mr. H. R. Norman, from Canning Town and Silvertown, to be Manager.

New Branches

BANK OF NEW ZEALAND.—At Customs Street East, Auckland (formerly an agency), at Porirua and Titahi Bay (agencies of Tawa Flat); at Paihia (agency of Kawakawa); at Raumati South (agency of Wellington).

IONIAN BANK LIMITED.—At Caterini in Macedonia (Greece); and on the Island of Calymnos in the Dodecanese (Greece).

LLOYDS BANK LIMITED.—At Benhall (sub to Montpellier, Cheltenham); at Oakley (sub to Cheltenham); the counter service given at each of the above-mentioned Centres of the Government Communications Headquarters will only be available to employees of the Foreign Office. At 50, Prince of Wales Road, Norwich, Norfolk (sub to Norwich). The address of the Bombay Branch is now Dr. Dadabhoy Naoroji Road, Bombay.

NATIONAL BANK OF AUSTRALASIA LIMITED.—At East Geelong and Springvale, Victoria; at Alderley, Queensland (formerly a receiving office); at Kalamunda, Western Australia; and (receiving offices) at Yarrunga and Noble Park, Victoria; Brookstead and Aspley, Queensland; and North Star, New South Wales.

NATIONAL PROVINCIAL BANK LIMITED.—At Margaret Street, W.1; at Redditch.

UNION BANK OF SCOTLAND LIMITED.—At 54, Woodside Way, Glenrothes, Fife.

Monetary Review

AS far as credit supplies were concerned, Lombard Street had an easy passage last month, but, as in May, there was no lack of incident to keep the market occupied. Owing to normal end-month requirements, combined with heavy purchases of Tax Reserve Certificates, the volume of credit fell seriously short at the end of May. High rates were paid for overnight loans, and a few discount houses had to obtain assistance from the Bank of England on the usual penal terms. The position changed with the beginning of June, with conditions decidedly more comfortable. Little assistance was required from the special buyer of bills, except when heavy cash applications for the Government's new Conversion 2 per cent. loan left the market short of funds. Money rates last month seldom exceeded the normal range.

	Floating Money	Market Rates—Bank Bills: Three Months	Four Months	Six Months	Bank Rate	Date of last Alteration
	%	%	%	%	%	
May 21, 1954	1½-1⅝	1¾	1⅞	2	3	May 13, 1954.
June 21, 1954	1½-1¾	1⅝	1 11/16	1 13/16	3	
Movement		⅛	3/16	− 3/16		

While credit remained reasonably plentiful, the announcement on June 1 of the Government's conversion scheme changed the tone of the discount market almost overnight. The issue of the new Conversion stock to provide for repayment of the 3 per cent. National Defence Loan, which is discussed more fully in a note on page 16, influenced bill rates from two directions. It dispelled any existing impression that the next change in money rates might be upward, and at the same time operated on commercial bill rates through the allotment rate on Treasury bills.

The discount market was not slow to realise that the new loan operation would put the Treasury in funds, and that reduced allotments of Treasury bills at the weekly tenders would be a logical outcome. In their desire to obtain a reasonable allotment ratio, discount houses therefore raised their tender price for the bills and this produced a substantial reduction in the average rates at which the bills were allotted. These lower rates of allotment called for a downward adjustment of commercial bill rates to maintain a proper relationship between the quotations for Government and commercial paper. Commercial bill rates in May failed to reflect the whole of the cut in Bank rate, but are now about ½ per cent. below the level prevailing before the official minimum was reduced. The rates at which the banks took Treasury bills from the market were naturally reduced last month to conform to the lower tender rate.

Anticipations of smaller allotments of Treasury bills were confirmed by the results of last month's tenders. On June 4 and at each of the two subsequent tenders the authorities under-allotted the bills, with the result that, on the basis of the three tenders, the Treasury repaid £50 million of bills. The policy of the discount market in making successively higher bids for the bills with the object of getting a workable allotment appears to have been successful, the market's quota on each occasion being well over 50 per cent. of its applications.

TREASURY BILLS

Date	*Bills Offered	(000's omitted) Bills Applied for	Average Rate %	
	£	£	s.	d.
1953				
Nov. 6	220,000	392,540	41	10·62
„ 13	230,000	372,910	41	11·48
„ 20	230,000	374.480	41	10·92
„ 27	240,000	368,425	41	11·45
Dec. 4	250,000	373,955	41	11·72
„ 11	250,000	368,480	41	11·98
„ 18	250,000	308,445	42	0·62
„ 24	250,000	338,860	42	7·34
1954				
Jan. 1	250,000	316,625	42	8·29
„ 8	230,000	319.340	42	7·90
„ 15	220,000†	335,490	42	7·72
„ 22	210,000	343,815	41	11·78
„ 29	220,000	381,975	41	11 04
Feb. 5	220,000	386,430	41	3·68
„ 12	230,000	369,925	41	4 01
„ 19	240,000	398,900	41	3 56
Feb. 26	250,000	400,765	41	3·37
Mar. 5	270,000	412,905	41	3·83
„ 12	270,000	414,560	42	2·61
„ 19	260,000	365,575	42	3·64
„ 26	270,000	405.205	42	3·62
Apr. 2	270,000	399,040	42	4 01
„ 9	270,000	392,195	42	4·05
„ 15	230,000	417,175	41	7·41
„ 23	230,000	415,375	41	7·34
„ 30	230,000	437,545	40	11·36
May 7	240,000	405,615	40	10·84
„ 14	260,000	391,695	34	1.75
„ 21	270,000	400,655	34	3·24
„ 28	270,000	426,825	34	5·33
June 4	270,000‡	411,325	32	11·61
„ 11	260,000†	418.325	32	3·56
„ 18	260,000†	400,410	31	7·57

* To be taken up during following week. ‡ Under-allotted by £20 million. † Under-allotted by £10 million.

An increase of £50 million to £1,675 million in the Bank of England's fiduciary note issue was announced at the beginning of June, and the need for the rise was underlined by subsequent demands for currency. Successive rises in the active circulation raised it on June 16 to a new high record of £1,640·7 million, or slightly above the previous peak, established last year when Christmas demands for currency were at their height. By June 16 the banking department reserve had been reduced to under £37 million, and it is evident that if normal trends in note requirements are followed, a further expansion of the fiduciary issue will be required before the August peak of circulation is reached.

Stock markets started the month well, with a fair turnover and rising prices. Gilt-edged stocks in particular were stimulated by the terms of the new conversion scheme, with a keen demand for medium-dated stocks. Industrials, and especially the "blue-chip" equities, followed the gilt-edged market upwards, being influenced partly by the reduced investment yields on first-class securities, but more by the continued announcement of good dividends, higher profits, and capitalisation schemes.

Markets in general suffered a relapse after Whitsun. The first check to the rise was given by the announcement of lower United States wheat export prices, which reminded dealers that wheat is traditionally the bellwether of commodities, and that lower international wheat prices might conceivably betoken a coming general fall of commodity values, with depression in primary producing countries. At the same time, the absence of results at the Geneva Conference induced nervousness on international politics in general, and the gilt-edged market was not helped by the announcement of the future capital plans of the electricity and gas industries, indicating the likelihood of a stream of large new issues for these industries at intervals over a long period.

Even when prices were declining, selling was by no means heavy, and it says something for the underlying stability of stock markets that the rise was resumed after less than a week, and that the whole of the previous loss was soon recovered. The industrial market, particularly, was helped in its recovery by further encouraging company news.

Events last month suggest that, to some extent at least, the new issue market had been kept clear of large operations in preparation for the Government conversion offer. Once that issue had been announced, a number of new capital offers made their appearance.

Among industrial issues, the most important, from every point of view, was that of 10 million £1 shares of Stewarts and Lloyds at 35s. a share—the third offer of steel shares to the public under the Government's denationalisation plan. Applications for these shares could be made in Treasury 3½ per cent. stock 1979–81 (formerly British Iron and Steel 3½ per cents) at a price of £97. 9s. 1d. per cent. Another important industrial offer was £4 million Rolls-Royce 4 per cent. debenture, 1974–84, at 99 per cent., which was immediately oversubscribed and stood at a small premium when stock exchange dealings commenced. Ryders Discount Co. £1 ordinary shares were dealt in at 31s. 6d., and the 5 per cent. Cum. Pref. at 20s. 9d.

RISING BANK ADVANCES

The combined statement of the London clearing banks for May shows a decline of £42·3 million in gross deposits, but owing to an unusually large contraction in the total of cheques in course of collection, net deposits actually increased by £15·9 million to £6,104·4 million, their highest since January. This net movement was due to a number of cross-currents, one of which was a decline of £34 million in the banks' aggregate cash holding, due to their heavy assistance to the discount market on May 19, the day on which the figures were made up.

(Figures in £1,000,000)

	Deposits, &c. £	Net Deposits £	Cash and at Bank £	p.c. to Deposits	Money at call, &c. £	Discounts Treasury Bills £	Discounts Other Bills £	Investments £	Advances £
May, 1954	6,335·2	6,104·4	500·6	7·9	463·1	1,033·9	87·9	2,304·7	1,793
April, 1954	6,377·5	6,088·5	534·6	8·4	489·2	999·8	88·3	2,279·9	1,772
March, 1954	6,243·2	6,009·9	511·9	8·2	467·7	995·1	83·2	2,269·4	1,760
February, 1954	6,237·1	6,010·0	504·5	8·1	453·6	1,034·0	79·2	2,274·9	1,740
January, 1954	6,456·6	6,232·1	526·0	8·2	482·6	1,254·0	76·1	2,277·1	1,694
December, 1953	6,694·2	6,370·2	541·9	8·1	500·7	1,338·2	79·0	2,275·2	1,705
November, 1953	6,418·6	6,193·7	520·3	8·1	469·2	1,299·6	54·8	2,245·1	1,676
October, 1953	6,373·3	6,155·6	518·4	8·1	476·1	1,286·7	53·1	2,238·1	1,654
September, 1953	6,319·6	6,095·1	515·0	8·2	475·5	1,322·0	53·8	2,136·9	1,662
August, 1953	6,240·1	6,041·2	510·7	8·2	456·1	1,275·5	55·2	2,139·7	1,676
July, 1953	6,246·9	6,013·7	510·5	8·2	460·2	1,183·8	60·6	2,140·2	1,730
June, 1953	6,299·5	6,023·3	514·0	8·2	469·1	1,148·7	60·4	2,136·4	1,762
May, 1953	6,082·8	5,865·0	498·3	8·2	463·7	1,013·5	66·3	2,123·1	1,772
April, 1953	6,059·6	5,821·9	498·3	8·2	454·2	938·2	71·3	2,119·[illegible]	1,814

Apart from this factor, the banks increased their holding of Treasury bills during the month by £34·1 million, but reduced their call money outstanding by £26·1 million. On balance, therefore, their new financing of the Government can have shown little net change, since call loans mainly reflect advances against Treasury bills and short-term Government bonds. The aggregate investment holding rose by £24·8 million to a new high record of £2,304·7 million, although this movement was mainly due to increased holdings of Government securities by Barclays and Lloyds. The recent rise in the banks' portfolio of bills other than Treasury bills received a check, this item, indeed, being slightly lower on the month, but advances continued their expansion, rising £21·[illegible] million to £1,793·3 million, their highest for over a year.

The quarterly analysis of advances made by the British Bankers' Association shows an increase of £47·8 million to £1,890·4 million in all bank loans during the three months to mid-May. The largest increase was £31·3 million in accommodation to public utilities, and the total of £118·3 million suggests that the nationalised gas and electricity industries, or one of them, may be raising new money by public issue before very long. Other categories of borrowers to increase their indebtedness to the banks were the food, drink and tobacco trades, and retail traders, larger financial requirements in each case being partly explained by the activity of United Kingdom domestic consumption.

Stock Exchange Values

THE movement of Stock Exchange values last month comprised a relapse and a resumption of the previous upward trend. After rising in the latter part of May, and early in June, prices were depressed by a reduction in the export price of American wheat, and by the sharp decline with which the New York Stock market greeted this news. In addition to the news from across the Atlantic, considerable doubt regarding international affairs was engendered at one time last month by the course of the peace discussions at Geneva. There was no particular pressure to sell, but buyers were holding off, and prices were marked down accordingly. The market in British Government securities derived its strength early in the month from the implications of the Government conversion scheme to repay the 3 per cent. National Defence loan. At the same time, industrial equities were rising under the influence of favourable company news, including the announcement of a number of free share distributions by important undertakings. Our mid-monthly index numbers show small declines, and reflect the greater part of the fall in values. They do not reflect the substantial recovery of prices which set in during the latter part of June.

Aggregate value of 365 representative securities on May 15, 1954 . . .	£6,746,193,000
" " " 365 " " " June 15, 1954 . . .	£6,715,972,000
Decrease .	£30,221,000

OUR INDEX NUMBER

Below will be found the movements in the index number of the security values of our list of 365 representative stocks from the year 1929 down to the present time. Limitations of space have made it necessary to omit each month our lengthy list of variations in the fixed and variable dividend securities over a period of years, but once a year (in the January issue) we give the complete list of the index numbers of those stocks. The total index number for June, was 120·9, as compared with 121·5 for the previous month. The index number of the fixed interest group now stands at 116·0, as compared with 117·3 for the previous month, and in the variable dividend list the index number is 131·1, compared with 130·2 for the previous month.

SECURITY VALUES INDEX NUMBER
(*December, 1921 = 100)

Year	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1929	129·6	128·1	127·3	127·3	125·6	125·4	126·5	127·0	127·3	126·1	[illegible]	[illegible]
1930 .	121·7	[illegible]	123·3	121·2	121·9	119·0	120·3	118·1	[illegible]	[illegible]	116·8	114·4
1931	114·9	[illegible]	114·1	111·9	105·0	108·6	109·3	101·3	99·0	103·1	103·1	98·5
1932 .	110·9	101·7	105·5	102·1	101·8	100·0	105·5	108·4	111·4	112·5	109·6	109·4
1933 .	110·2	111·1	111·2	112·4	112·5	114·3	115·9	117·0	118·7	118·1	117·5	117·6
1934	120·4	121·5	122·9	123·8	122·6	121·8	122·5	[illegible]	[illegible]	123·6	126·9	126·5
1935	128·5	125·8	123·7	124·9	125·3	125·5	[illegible]	[illegible]	[illegible]	121·3	[illegible]	126·4
1936 .	[illegible]	129·6	128·6	130·2	129·1	128·8	[illegible]	131·0	131·7	133·9	133·8	133·1
1937 .	[illegible]	129·7	128·4	128·2	127·3	125·6	125·1	125·9	[illegible]	121·6	121·0	121·2
1938 .	121·6	120·7	115·9	119·2	117·0	116·3	118·9	117·7	113·8	114·2	114·4	112·4
1939 .	112·0	111·7	110·0	107·1	110·0	109·8	108·8	107·4	103·3	106·3	108·7	108·7
1940 .	112·2	114·3	114·6	114·1	110·4	104·6	106·9	107·8	103·2	110·0	111·3	112·0
1941 .	113·6	112·8	112·9	112·4	113·3	113·5	115·6	116·0	117·5	117·1	117·8	117·1
1942 .	118·5	117·0	117·0	117·3	117·2	117·5	118·1	118·2	119·0	120·4	129·0	120·6
1943 .	122·7	122·5	122·7	123·3	122·3	122·1	123·3	123·0	123·1	123·4	122·6	122·7
1944 .	123·3	123·8	123·6	123·5	123·8	124·5	125·0	125·1	124·6	124·9	125·3	125·5
1945	126·1	126·1	126·3	127·1	126·6	126·4	127·1	126·1	126·3	127·0	127·2	126·8
1946 .	128·3	128·9	128·3	130·1	131·7	132·1	132·2	131·4	130·4	130·0	132·1	133·2
1947 .	133·8	132·3	132·2	131·3	132·0	131·3	131·0	125·2	123·7	125·0	125·6	127·9
1948 .	128·8	127·6	126·8	127·5	128·2	128·0	126·9	127·0	127·1	127·3	127·6	127·5
1949	128·0	128·1	126·7	126·6	126·5	124·1	122·1	119·8	119·9	120·3	117·7	119·3
1950 .	119·1	119·0	118·8	119·5*	119·7	121·4	119·9	120·0	122·3	123·8	124·0	122·2
1951 .	123·6	123·6	122·8	122·4	123·0	122·3	121·1	120·5	120·8	121·3	119·7	115·9
1952 .	115·4	114·7	111·6	112·9	113·1	110·2	110·3	110·7	113·7	112·6	112·0	113·0
1953 .	113·5	113·9	114·9	115·1	114·6	115·2	114·9	115·6	115·7	116·9	118·1	117·5
1954 .	117·8	118·9	119·2	120·7	121·5	120·9						

* Date when Securities revised.

Table—Showing Values of Securities and their aggregate Variation during the past Month

[000's omitted]

Nominal Amount (Par Value)		Department, containing	Market Values May 15, 1954	Market Values June 15, 1954		Change on the Month		Increase or Decrease Per Cent.
£			£	£		£		
3,566,600	10	British and Indian Funds	3,329,208	3,280,922	−	48,286	−	1·5
58,950	9	Corporation (U.K.) Stocks	50,475	50,470	−	5		0·0
83,550	8	Colonial Government Stocks	76,957	77,195	+	238	+	0·3
22,300	8	Corporation Stocks (Colonial)	19,687	19,695	+	8	+	0·0
21,050	7	Do. do. (Foreign)	18,298	18,392	+	94	+	0·5
598,230	26	Foreign Government Stocks	213,437	213,795	+	358	+	0·2
254,655	6	British Railway Debenture Stks.	‡301,278	‡301,278		..		..
310,765	6	Do. do. Preference Stks.	‡247,161	‡247,161		..		..
132,000	7	United States Bonds (Gold) †	†141,662	†141,662		..		..
5,048,100	87	Fixed Interest Stocks	**4,398,163**	**4,350,570**		**47,593**		**1·1**
315,325	13	British Railway Ordinary Stocks	‡72,406	‡72,406		..		..
18,900	5	Indian Railway Stocks	26,647	26,617	−	30	−	0·1
88,350	5	Colonial Railways	118,664	120,949	+	2,285	+	1·9
474,000	11	United States Railway Shares	281,728	292,936		11,208	+	3·9
141,200	20	Foreign Railways	27,835	27,828		7		0·0
59,685	13	British Bank Shares	205,942	204,992		950		0·5
43,000	18	Colonial and Foreign Bank Shs.	69,397	69,792	+	395	+	0·6
18,121	10	Brewery Stocks	65,510	65,669	+	159		0·2
17,750	7	Canals and Docks	21,747	21,783	+	36	+	0·2
146,916	38	Commercial and Industrial Shs.	580,705	579,616		1,089		0·2
9,537	8	Electric Lighting and Power	‡21,592	‡21,592		..		..
15,100	9	Financial, Land and Investment Shares	30,132	30,683	+	551	+	2·2
30,680	7	Gas Stocks	‡27,895	‡27,895		..		..
9,343	17	Insurance Shares	235,968	235,108		860		0·4
58,294	14	Iron, Coal and Steel Shares	95,804	100,223	+	4,419	+	4·6
3,100	5	Nitrate Shares	579	627	+	48	+	8·4
42,649	10	Oil Shares	193,304	193,814	+	510	+	0·3
5,402	9	Rubber Shares	2,274	2,253	−	21	−	0·9
17,456	5	Shipping Shares	27,296	27,762	+	466	+	1·7
1,890	6	Tea Shares	5,499	5,428		71	−	1·3
20,808	9	Telegraphs and Telephones	56,760	56,839	+	79	+	0·1
27,716	7	Tramways and Omnibus	44,883	44,692	−	191	−	0·4
29,517	19	South African Mines	87,609	87,671	+	65	+	0·1
28,735	6	Copper Mining Shares	37,973	38,380	+	407	+	1·1
11,859	7	Miscellaneous Mining Shares	9,881	9,844	−	37		0·4
1,635,333	278	Variable Dividend Securities	**2,348,030**	**2,365,402**	+	**17,372**	+	**0·7**
6,683,433	365	Grand totals	**6,746,193**	**6,715,972**	−	**30,221**	−	**0·5**

† Designation of gold bonds retained though title apparently unwarranted.
‡ Entered at vesting prices.

July, 1954

BANKERS' MAGAZINE SHARE LIST

BANKS

Last Dividend Actual	Total for Year	Total for Previous Year	NAME	Quotations May 14, 1954	Quotations June 15, 1954
3/6	5/-	3/6	Alexanders Discount Co. Ltd. (£2, with £1 paid)	101/3	[illegible]
1/2½	--	2/1½	Do. do. 6% Cum. Pref. (£2)	45/-	47/6
[illegible]		2/-	Australia and New Zealand Bank (£2, with £1 paid)	37/6	37/6xd
1‡	-	1/9‡	Bank of Adelaide Stock	30 xd	30
5/7	8	8/-	Bank of British West Africa Ltd. (£10, with £4 paid)	7¾	7
£9	£15	£14	Bank of Ireland Stock		—
4	6/-	6/-	Bank of London & S. America Ltd. Stock	5¼	5
30 cents	—	$1.40	Bank of Montreal (London Register) ($10)	£15xd	£16
9/‡	-	34/‡	Bank of New South Wales (London Register) (£20)	30½xd	31¼
40 cents	—	$1.80	Bank of Nova Scotia (London Register) ($10)	£16¼	£16¼
1/4	2/7	2/4	Bank of Scotland (Governor & Co. of) Stock	59	60/
9d.	-	1/7	Barclays Bank (Dom., Col. & Overseas) "A" Stock	39/6	39/-xd
--		-	Barclays Bank Ltd., Ord. Stock	46	45/-
4½d.	--	—	British Bank of The Middle East (£10)	24/-	25/-
50 cents	-	$1.20	Canadian Bank of Commerce (London Register) ($10)	£13	£13¼
1/4½	2/9	1/6	Chartered Bank of India, Australia & China, Stock	43/-	42/6
6d.‡	-	1/‡	Commercial Bank of Australia Ltd. Ordinary (London Register) (£10)	15/6	16/6
2‡	--	4‡	Commercial Bank of Australia Ltd. 4% Pref. (London Register) (£10)	6	6
5.76d		11.52d	Commercial Bank of Scotland Ltd., "A" Shares (£1, with 6/- paid)	22	22
1		2	Commercial Bank of Scotland Ltd., "B" Shares (£1)	45	42/6
2/2	4/-	3/3	District Bank Ltd. "A" Shares (£5, with £1 paid)	92	91/6
1/-	2	2	Do. do. "B" Shares (£1)	42/-	42/
2/2	4/-	3/6	Do. do. "C" Shares (£1)	92	92
5	8	7	Eastern Bank Ltd. (£10, with £5 paid)	8¼	8¼
[illegible]	--	7/6	English, Scottish & Australian Bank Ltd. (£5, with £3 paid)	5¼	5¼
6/3	8/6	7/6	Hambros Bank Ltd. (£10, with £2½ paid)	8	8¼
7d.	1/2	1/2	Do. do. "A" Shares (£1)	22/6	22/6
£3	£5	£5	Hongkong & Shanghai Banking Corp. (London Register) ($125)	£92½	£93¼
4	4/-	4	Ionian Bank Ltd. (£5)	70	67/6
1/7	2/0	2/4	Lloyds Bank Ltd., "A" Shares (£5, with £1 paid)	62/6	61/
6d	1/-	1	Do. do. "B" Stock (£1)	24	24/
5/-	8/0	7/6	Martins Bank Ltd. (£20, with £2½ paid)	9¼	9
2/-	3/6	3/-	Do. do. (£1)	82/6	82
17/6	35	35	Mercantile Bank of India Ltd., "A" Shares (£25, with £12½ pd)	27	28½
17/6	35/-	35	Do. do. do. "B" Shares (£25, with £12½ pd)	27	28½
7/-	14	14/	Do. do. do. "C" Shares (£5)	10¼	11
4/-	8	8/-	Midland Bank Ltd. (£12, with £2½ paid)	9¼	[illegible]
4/	8/-	8	Do. do. (£2½)	9¼	9¼
1/7½	3/2	3/2	Do. do. (£1)	77/6	78/
1/2/	2/2	2/2	National Bank Ltd. (£5, with £1 paid)	40	40/
160psts	200psts	200psts	National Bank of Egypt (Bearer) (£E10)	22¼	[illegible]
20	40/	40	National Bank of India Ltd. (£1, with 12/6 paid)	25	27/6
2/6	5	4	National Bank of New Zealand Ltd. (£7½, with £2½ paid)	87/6	86/6
1/-	2	2	National Discount Co. Ltd., "A" Stock	40	41/
1	2	2/-	Do. do. "B" Stock	39	38
1/2.28	2/4.56	2/2.[illegible]	National Provincial Bank Ltd., "A" Shares (£5, with £1 paid)	53/6	51/
1/8-	3/4	3/-	Do. do. do. "B" Shares (£5, with £1 paid)	77/6	78/6
1/8½	3/4	3/2	Do. do. do. Shares (£1)	80/	82/
8/	8/	8/	Ottoman Bank (Bearer) (£20, with £10 paid)	9¼	9¼
35 cents	--	$1.40	Royal Bank of Canada ($10)	£16	£16½
1/9½		3/7½	Royal Bank of Scotland, Stock	84 xd	87
1/	-	2/3	Standard Bank of South Africa Ltd. (£2, with £1 paid)	40	39/6
1/	2/-	2/	Union Discount Co. of London, Ltd., Stock	50/6	49
1/9½	3/7	3/7	Westminster Bank Ltd. (£4, with £1 paid)	88/6	84/6
1/3	2/6	2/6	Do. do. Stock	56/6	56/6

*Bank-Insurance Units	25/4½	25/4½
*Bank-Units	25/5	25/7½
*Scottish Bank I. & I. T. Units (Scotbits)	32/3	33/4½
*Investment-Trust-Units	31/9xd	33/1½

* These prices include stamp duty and commission.
† Free of Income Tax
‡ Australian currency.
‖ None on offer.
xd.—Ex Dividend

BANKERS' MAGAZINE SHARE LIST

INSURANCE

Last Dividend Actual	Total for Year	Total for Previous Year	NAME	Quotations May 14, 1954	Quotations June 15, 1954
14/	24	22/	Alliance Assurance Co. Ltd. (£20, with £2 paid)	30	29¼
14/	24	22/	Do. do. New Shares (£1)	30¼	30
8/	15/	15/	Atlas Assurance Co. Ltd. (£5, with £1½ paid)	18¼xd	---
1/6†	7/6†	11/†	Britannic Assurance Co. Ltd., Ord. Stock	5¼	5½
2½	5	5	Do. do. 5% tax-free, Cum. Pref. Stock	33/	33/xd
2/6	--	4/6	Caledonian Insurance Co. (£1, with 10/ paid)	6¼	6
6/6	11/6	10/	Commercial Union Assurance Co. Ltd., Stock	72 6	71/3
3 3	5	4 6	Eagle Star Insurance Co. Ltd., Ordinary (10/)	113/9	111 3
3 3	5	4 6	Do. do. Ordinary (£3, with 10/ paid) ..	103 9	103 9
4½d.	9 d.	9 d.	Do. do. 4% Cum. Pref. (£1)	17 6	17/6
4½d.	9 d.	9 d.	Do. do. 4% 2nd Cum. Pref. (£1) ..	17 6	17/6
1/	1 7½	1/7½	Economic Insurance Co. Ltd. (£1, with 5/ paid)	29/6xd	29/6
3/		4/6	Employers' Liability Assurance Corp. Ltd. (£1, with 5/ paid)	97/6xd	96 3
2/6†	5/†	6/	Equity & Law Life Assurance Soc. (£5, with £1½ paid) ..	13½	13½
4/	6	6/	General Accident, Fire & Life Assurance Corp., Ord. (£1) ..	7¼xd	7¼
6d.	1	1/	General Accident, Fire & Life Assurance Corp., Cum. 5% Pref. (£1)	22/xd	22/
3/6	6/	5/	Guardian Assurance Co. Ltd., Ord. (£1)	7¼xd	7¼
2/	—	4/	Do. do do. Pref. (£5% non-Cum.) (£4) ..	82/6xd	82/6
4 3	6 9	6/9	Legal & General Assurance Soc. Ltd. (£1, with 5/ paid) ..	13	11½xd
3/	4 6	4/	Licenses & General Insce. Co. Ltd., Ord. (£1, with 10/ paid)	5⅜	5⅜
2	-	4	Liverpool & London Globe Insce. Co. Ltd., 4% Perp. Deb. Stk.	92½xd	92½
3 3	6 6	6/	London & Lancashire Ins. Co. Ltd., Stock	8	7¾
10/†	10/†	10/†	London & Manchester Assce. Co. Ltd. (£1)	19	19¼
13 9	..	18 9	London Assurance, Ord. (£2½)	26¼	25¼
4½d.	9 .	9d.	Do do. 4% Cum. Pref. (£1)	18/	18/
5/		10/	North British & Mercantile Insce. Co. Ltd., Ord. (£1¼) ..	13¼	13¼
2	4	4	Do do. do do. 4% Pref. Stock (Non-Cum.)	87½	87½xd
11/6	20/	18/	Northern Assurance Co. Ltd., Ord. (£10, with £1 paid) ..	27½xd	27½
4/6	..	17/0·71/	Do. do. Participating Pref. (£7½) ..	22½	22½
8/†	12	12/	Pearl Assurance Co. Ltd., Ord. (£1)	21¼	20¼
7½d.	1 3	1/3	Do. do. 6% (Tax free), Cum. Pref. (£1) ..	37 6	37/6xd
8 6	..	17	Phœnix Assurance Co. Ltd. (£10, with £1 paid)	21¼xd	20¾
8/6		17/	Do. do. (£1)	21¼xd	21
2/3	2 3	2 3	Planet Assurance Co. Ltd., Ord. (£1, with 10/ paid)	60/	60/
1/		2/	Provincial Insurance Co. Ltd., 10% Cum. Pref. (£1)	37/6	37/6
6d.		1/	Do. do. do. 25% Cum. Pref. (4/)	20/	20/
15/†	--	21/†	Prudential Assurance Co. Ltd., "A" Shares (£1)	41½	39½
2/6†	2 6†	2/†	Do. do. do. "B" shares (£1, with 4/ paid)	107/6	5
2/6	2/6	2/3	Reinsurance Corp. Ltd. (£1, with 10/ paid)	80/	81 3
6/	10/	10/	Royal Exchange Assurance, Stock	18½xd	6¾
5/9	11/	10/	Royal Insurance Co. Ltd., Stock	14⅛	13⅞
4/	..	7/	Scottish Union & National Ins. Co., "A" Shares (£10, with £1 paid)	9⅜xd	8⅜
15/		26/3	Scottish Union & National Ins. Co., "B" Shares (£5, with £3¾ paid)	33½xd	33½
3/	5/	5	Sea Insurance Co. Ltd. (£1)	5¾	5¾
2/10	5	5/	Sun Insurance Office Ltd. (£1, with 10/ paid)	6¼	6
1/9†	—	3 6†	Sun Life Assurance Society (£1)	9¼	8¾
1/	1/	9d.	Victory Insurance Co. Ltd., Ord. (16/ with 6/ paid)	35/	38/
2	2	1/10½	World Auxiliary Insce. Corp. Ltd. (£1, with 10/ paid) ..	42/6	40
4 9	8/	8/	Yorkshire Insurance Co. Ltd. (£2½, with 10/ paid)	11½xd	11¼
9/6	16	16/	Do. do. (£1)	22½xd	23

*Insurance-Units	27 3	26 5½
*Combits	16/	16/10½

* These prices include stamp duty and commission.
† Free of Income Tax.
xd—Ex Dividend

100 Years Ago

From *The Bankers' Magazine* of July, 1854

THE BANK OF ENGLAND AND THE GOVERNMENT

There seems a studied attempt, at the present moment, to investigate the merits of the Bank Charter. This is not unreasonable, considering that the period is approaching when the question of its renewal or modification will have to be brought before Parliament. The topic, however, has been more prominently forced into notice, in consequence of an opinion expressed that the Government would be enabled to regulate its financial affairs with greater facility, were the existing regulations dispensed with, and the establishment placed under the immediate control of the State . . . .

It appears to be presumed that the difficulties encountered by Mr. Gladstone in his late financial operations arose, in a measure, from the adverse action of the Bank ; and that the subsequent diminution of the Exchequer balances, which placed him in an unsatisfactory position, might have been obviated had a less restrictive policy been exhibited. The absence of harmony between the executive of the Treasury and the executive of Threadneedle Street, under these circumstances, has, it is alleged, demonstrated the impracticability of the State being adequately represented by the Bank in future emergencies of a similar character . . .

The institution of a Government bank, to exercise the privileges enjoyed under the existing Charter, to manage the public debt and regulate general finances, would, if carried out on the basis already legalised, fail to place the subsidiary measures governing the currency in a better situation than they now stand ; and notwithstanding it would bring within the grasp of the State the power of dealing with the money market in the manner most calculated to suit the interests of the minister of the day, no advantage would accrue to those whose interests are supposed to be prejudiced by the present status of the Bank. Indeed, it is questionable if any positive alteration took place, whether the introduction of a State paper currency might not militate against the facilities permitted to country banks, limited though they are said to be. The disadvantage would not be so great to the public as it would probably prove in other quarters, when the test came to be applied . . .

The Bank of England as it now stands—the representative in one sense of the Government, and in the other of the trade of the country—is in a position to obtain a renewal of its Charter. That some modification or revision of the terms on which it may be granted will take place, many feel inclined to believe, but few seem disposed to admit the necessity of a State Bank, or entertain the opinion that one can be seriously contemplated. The principal modifications which, it is stated, are essential, include the allowance of discretionary powers available under Government sanction, whenever the exigencies of the period may require their introduction, and an enlargement of the circulation, to meet the demands produced by extended mercantile operations ; and with these amendments the charter would effectually perform its important functions.

Even the opponents of the system as propounded by the Act of 1844, if these alterations were effected, would be more reconciled to its operation, and the arrangement of a compromise might in the end satisfy the whole banking community, and tend to remove those petty jealousies fostered at the expense of all interested in the question. It is scarcely possible to believe that any other spirit than that dictated by a desire to secure the financial and commercial interests of the country, can influence the Government or the Bank directors in advising and effecting ameloriating changes, the support and steady development of our industrial resources, depending upon the efficiency of currency regulations . . .

Bank Reports, Meetings, etc.

ARAB BANK LIMITED

Balance-sheet as at December 31, 1953

(To the nearest Dinar)

LIABILITIES

Deposits and other accounts	JD.16,451,054
Bills payable	204,534
Guarantees and credits on account of customers (per contra)	6,890,094
Other liabilities	822
Authorised and subscribed capital :—37,500 founders' shares at JD. 4, fully paid, JD.150,000 ; 237,500 ordinary shares at JD. 4, fully paid, JD.950,000 = JD.1,100,000 ; reserve fund, JD.1,548,383 ; special reserve, JD.554,525.	3,202,908
General profit and loss account :—balance of profits	189,027
	JD.26,938,439

ASSETS

Cash in hand and at banks	JD.8,980,693
Securities (market price)	7,761
Bills discounted	1,917,172
Advances to customers	8,697,403
Customers' liability on guarantees and credits (per contra)	6,890,094
Properties (after depreciation)	147,301
Furniture (after depreciation)	140,256
Other assets	157,759
	JD.26,938,439

✦

BARCLAYS BANK (DOMINION, COLONIAL AND OVERSEAS)

Statement of Accounts, March 31, 1954

LIABILITIES AND OTHER ACCOUNTS

	£	s.	d.
Current, deposit and other accounts, taxation based on profits to date, reserves for contingencies and balance of profit and loss	£462,469,506	0	0
Notes in circulation	636,703	0	0
Acceptances, guarantees, indemnities, etc., for account of customers	35,456,842	0	0
	£498,563,051	0	0
Capital—authorised : 12,500,000 "A" shares of £1 each, £12,500,000 ; 500,000 "B" shares of £5 each, £2,500,000=£15,000,000 ; issued : 8,276,875 "A" shares of £1 each fully paid, converted into stock, £8,276,875 : 500,000 "B" shares of £5 each, £2 paid, £1,000,000	9,276,875	0	0
Reserve fund	8,000,000	0	0
	£515,839,926	0	0

ASSETS

	£	s.	d.
Cash in hand and balances with bankers	£71,621,339	0	0
Money at call and short notice	18,700,000	0	0
Remittances in transit	8,191,992	0	0
Bills discounted—British and other Government Treasury bills, £56,099,932 ; other bills, £25,654,319	81,754,251	0	0
Investments—Securities of, or guaranteed by, the British Dominion and Colonial Governments (including securities lodged with the Crown Agents for the Colonies as security for note issue and with others), £110,729,955 ; other investments, £7,078,219	117,808,174	0	0
Barclays Overseas Development Corporation Limited, 200,000 shares of £10 each, fully paid, at cost less amounts written off	2,000,000	0	0
Advances to customers and other accounts	172,762,794	0	0
Customers' liability for acceptances, guarantees, indemnities, etc.	35,456,842	0	0
Bank premises at cost *less* amounts written off	7,544,534	0	0
	£515,839,926	0	0

IONIAN BANK LIMITED

The net profit for the year ended December 31, 1953, amounts to £36,335; the balance brought forward from December 31, 1952, was £17,042—£53,377. The directors recommend:—payment of a dividend at the rate of 4 per cent. subject to income tax, £13,200; a transfer to general contingencies account of £20,000—£33,200; leaving a balance to be carried forward of £20,177.

Balance-sheet, December 31, 1953

LIABILITIES

Authorised capital:—200,000 shares of £5 each, £1,000,000.

	£	s.	d.
Issued capital—120,000 shares of £5 each, fully paid	£600,000	0	0
Reserve fund	300,000	0	0
Profit and loss account	20,177	0	0
	£920,177	0	0
Current, deposit and other accounts, including contingencies account and provision for taxation	9,808,171	0	0
Balance in account with subsidiary company	2,667	0	0
Bills payable	148,465	0	0
Acceptances on behalf of customers	4,228	0	0
Documentary credits, guarantees and other obligations on account of customers	2,511,445	0	0
Proposed dividend, *less* income tax	13,200	0	0
	£13,408,353	0	0

NOTES.—(1) Foreign currencies have been converted into sterling at the rates ruling on December 31, 1953.

(2) £1,200,000 (Nominal) British Government securities were deposited with National Bank of Egypt, London, under an arrangement to avoid the necessity of transfers of funds to Egypt, in respect of which an advance of L.E.900,000 was outstanding at December 31, 1953.

(3) British Government securities are taken at or under cost and below redemption value. At December 31, 1953, the market value was in excess of this figure.

ASSETS

	£	s.	d.
Cash in hand, at bankers and at call:—London, £371,612; branches, £1,183,444	£1,555,056	0	0
Balances with banking correspondents	324,228	0	0
Investments:—British Government securities (see Note 3), £1,674,958; other investments at cost or market value whichever is the lower—quoted on London Stock Exchange, £31,711; quoted on overseas Stock Exchanges, £178,070	1,884,739	0	0
Bills receivable	625,048	0	0
Loans, advances and other assets, *less* provisions	6,139,333	0	0
Balance in account with subsidiary company	11,565	0	0
Liabilities of customers for acceptances	4,228	0	0
Liabilities of customers for documentary credits, guarantees and other obligations	2,511,445	0	0
	13,055,642	0	0
Investments in subsidiary companies (*see* Directors' Report), at cost, *less* amount written off:—Popular Bank S.A. Athens, 20,167 shares fully paid, out of a total of 23,572 shares, £125,916; Ionian Insurance Company S.A. Athens, 6,350 shares fully paid, out of a total of 7,500 shares, £7,921	133,837	0	0
Mortgaged property in possession at or below valuation	882	0	0
Bank premises in Greece, including installations, at cost, *less* amounts written off, £214,992: installations in London at cost, *less* amounts written off, £3,000	217,992	0	0
	£13,408,353	0	0

THE NATIONAL BANK OF NEW ZEALAND LIMITED

THE profit for the year ended March 31, 1954, after providing for taxation and after making appropriations to contingency account, out of which account full provision has been made for bad and doubtful debts, other contingencies, and diminution in the value of assets, amounts to £213,227. To this amount has to be added £132,393 brought forward from the previous year, making an available total of £345,620 which has been appropriated as follows:—contingency account, £100,000; interim dividend of 3 per cent. actual, *less* United Kingdom income tax at 9s. in the £, paid January 19, 1954, £33,000; final dividend of 7 per cent. actual, *less* United Kingdom income tax at 9s. in the £ (subject to confirmation by the members), £77,000—£210,000; balance to be carried forward to next account, £135,620. The reserve fund has been increased to £2,000,000 by the transfer of £500,000 from the contingency account.

Balance-sheet, March 31, 1954

LIABILITIES

Capital authorised—800,000 shares of £7. 10s. each	£6,000,000	0	0
Capital issued—800,000 shares of £7. 10s. each, £2. 10s. paid	2,000,000	0	0
Reserve fund—general reserve, £1,612,500; share premium account, £387,500	2,000,000	0	0
Profit and loss account	135,620	0	0
Proposed final dividend	77,000	0	0
Deposit and current accounts	54,571,596	0	0
Bills payable and other liabilities, including reserves for contingencies and taxation on profits to date	4,603,244	0	0
	£63,387,460	0	0

NOTES.—(1) There are contingent liabilities in respect of confirmed letters of credit, guarantees and forward exchange contracts, etc., covered by customers' engagements, amounting to £2,618,871.

(2) Current assets and liabilities in New Zealand and other currencies have been converted into English pounds at rates of exchange ruling at March 31, 1954. Fixed assets in New Zealand have been converted at the rates ruling at the dates of acquisition.

(3) Investments in subsidiary nominee companies have been written down to nil. These companies make neither profit nor loss. As their figures are insignificant, group accounts are not submitted.

(4) The directors' remuneration amounted to £8,5[illegible].

ASSETS

CURRENT ASSETS—			
Cash in hand and balances with bankers on current and deposit accounts and cheques in course of collection	£19,852,410	0	0
Money at call and short notice	2,500,000	0	0
Items in transit between branches	2,463,135	0	0
Bills receivable—London, £1,129,204; New Zealand, £887,078	2,016,282	0	0
Investments, quoted (on Stock Exchanges in England, New Zealand and Australia respectively, at market value)—British Government securities, £1,907,750; New Zealand Government securities, £2,059,509; Australian Government securities, £69,969; unquoted (at cost)—State Advances Corporation Bonds (1961), guaranteed by the New Zealand Government, £2,276,463	6,313,691	0	0
Advances, after deduction of provision for doubtful debts, and other accounts	29,414,621	0	0
FIXED ASSETS—			
Landed property, premises and furniture, at cost, *less* amounts written off	827,321	0	0
	£63,387,460	0	0

BANK OF ENGLAND—ANALYSIS OF RETURNS

Date	Notes in Circulation	Gold Coin and Bullion	Government Securities in Banking Department	Other Securities in Banking Department	Discounts and Advances	Public Deposits †	Other Deposits: Bankers	Other Deposits: Other Accounts	Total Deposits	Reserve	Proportion of Reserve to Liabilities	* Rate of Discount
1954	£	£	£	£	£	£	£	£	£	£	%	%
Feb. 10	1,543,431,249	2,750,699	315,589,439	22,583,771	18,337,730	20,668,933	286,839,099	64,967,696	372,475,728	34,319,450	9·2	3½
,, 17	1,545,568,763	2,786,174	317,729,439	21,306,366	10,307,730	18,041,306	280,986,806	64,138,450	363,166,562	32,217,411	8·8	,,
,, 24	1,547,887,977	2,775,556	323,349,439	16,763,201	14,027,730	15,652,318	284,025,209	65,909,554	365,587,081	29,887,579	8·1	,,
Mar. 3	1,555,900,773	2,764,945	327,529,439	24,909,691	12,536,830	26,816,931	276,577,265	64,975,565	368,369,761	21,864,172	5·9	,,
,, 10	1,561,769,550	2,794,638	333,519,439	17,712,101	15,630,000	21,633,078	277,407,846	65,357,854	364,398,778	16,025,088	4·3	,,
,, 17	1,562,663,863	2,810,743	296,184,439	18,409,002	10,212,700	12,781,922	292,654,546	66,034,397	371,470,865	65,146,880	17·5	,,
,, 24	1,565,756,327	3,000,721	293,799,439	18,575,622	7,493,407	18,030,690	280,973,935	64,582,528	363,587,153	62,244,394	17·1	,,
,, 31	1,576,905,973	3,158,253	303,394,439	15,857,015	15,223,407	31,603,046	262,701,335	72,870,513	367,174,894	51,252,280	13·9	,,
Apr. 7	1,592,177,930	3,170,476	319,454,439	13,970,071	13,623,407	14,261,148	287,039,883	64,029,212	365,330,243	35,992,546	9·8	,,
,, 14	1,609,013,783	3,111,103	334,974,439	14,064,852	7,868,407	15,531,087	278,151,799	64,578,373	358,261,259	19,097,320	5·3	,,
,, 21	1,615,116,260	3,058,960	347,904,439	13,866,174	10,533,407	11,402,834	292,531,493	63,479,299	367,413,626	12,942,700	3·5	,,
,, 28	1,612,557,523	3,057,023	355,564,439	13,966,752	7,528,412	18,313,938	289,261,467	67,144,528	374,719,933	15,499,500	4·1	,,
May 5	1,613,339,928	3,045,938	353,054,439	13,865,875	9,607,700	28,571,611	275,462,513	69,331,693	373,365,817	14,706,010	3·9	,,
,, 12	1,612,905,757	3,039,676	346,179,439	14,049,662	8,387,700	24,579,121	270,615,582	70,663,933	365,858,636	15,133,919	4·1	‡3
,, 19	1,609,768,690	3,088,542	338,829,439	13,902,245	6,973,542	24,049,416	267,424,762	68,623,570	360,097,748	18,319,852	5·0	,,
,, 26	1,613,419,801	3,114,245	338,664,439	13,863,081	6,958,549	23,224,529	267,813,508	69,804,116	360,842,153	14,694,444	4·1	,,
June 2	1,624,694,203	3,123,022	301,174,439	13,892,973	15,448,654	15,033,855	280,769,342	70,134,815	365,938,012	53,428,819	14·6	,,
,, 9	1,637,150,536	2,614,397	321,444,439	13,795,246	8,833,464	19,792,591	279,262,501	67,439,539	366,494,631	40,463,861	11·0	,,
,, 16	1,640,712,366	2,606,565	326,759,439	13,855,763	9,419,493	15,431,666	287,175,604	66,221,884	368,829,154	36,894,199	10·0	,,
,, 23	1,641,508,951	2,602,785	320,924,439	13,847,245	13,609,713	15,640,509	283,457,867	67,234,525	366,332,901	36,093,834	9·8	,,

* The figures of the Returns are those of the Wednesday on which the Returns are dated but except when otherwise stated the dates of the change in the Official Rate of Discount apply to the following day Thursday.
† This figure includes H.M. Treasury Special Account.
‡ Taking effect from May 13.

MONTHLY STATEMENT OF BALANCES OF LONDON CLEARING BANKS

('000's omitted)

May, 1954	Barclays	Coutts and Co	District	Glyn, Mills & Co.	Lloyds	Martins	Midland	National	National Provincial	West-minster	Williams Deacon's	Aggregates
Date:	19th	19th	19th	19th	19th	19th	19th	18th	19th	19th	19th	
ASSETS	£	£	£	£	£	£	£	£	£	£	£	£
Coin, Bank Notes and Balances with the Bank of England	102,497	4,014	19,736	5.449	89.931	23.559	109.244	6 764	63,650	65.104	11,131	500.565
Balances with and Cheques in course of collection on other Banks in the U.K. and Republic of Ireland	47,231	2,928	10,548	3.198	37,741	13,485	49.717	950	26.725	32.305	5,989	230.817
Items in Transit	—	—	—	—	10,380	—	—	—	—	—	—	10,380
Money at Call and Short Notice	82,589	5,485	17,885	13.438	77,396	27.158	83,395	15,645	66.681	59,974	13,423	463,069
Treasury Bills Discounted	205,215	7,000	40,150	5,050	191,585	45.450	239.197	2,500	132.860	145,390	16,500	1.033.897
Other Bills Discounted	32,293	632	853	512	13,125	3,257	28,650	930	3.724	3.322	386	87,884
Investments at Book Value	511.692	18,697	96,271	21.680	429.431	117.380	459,523	27,924	253,086	290.350	48.636	2,304,670
Advances to Customers and other Accounts	361,900	15,048	58,126	18,925	312,405	87.444	366,816	29,607	275,362	229,118	38,558	1.793,309
Liabilities of Customers for Acceptances, Endorsements, etc.	48.608	2,540	11,545	6,157	93,075	17,864	51.230	949	30.776	58,576	11,720	333.040
Bank Premises Account	9,477	405	1,537	695	8.489	4,250	8.738	431	6,506	5,673	1,127	47,328
Investments in Affiliated Banks and Subsidiary Companies	13,482	—	—	—	4,346	100	8,866	—	2,304	3,092	—	32,190
	1,414,984	56,749	256,651	75,104	1,268,104	342.947	1,435,376	85,700	861,660	892.904	146,970	6,837,149
Ratio of Cash to Current, Deposit and other Accounts	7·70	7·69	8·28	8·15	7·87	7·49	8·07	8·33	7·86	8·00	8·09	7·90
LIABILITIES												
Capital Paid up	22,915	1,000	2,976	1,060	15,810	4,315	15,159	1,500	9,479	9,320	1,875	85,409
Reserve Fund	12,750	1,000	3,800	1,060	16,500	6,000	15,158	1,435	12,250	10.920	2,000	82,873
Current, Deposit and other Accounts	1,330.711	52,209	238.330	66,827	1,142,709	314,749	1,353,829	81.203	809.155	814,071	131,375	6.335,168*
Acceptances, Endorsements, etc.	48,608	2,540	11.545	6,157	93,075	17,864	51,230	949	30,776	58,576	11,720	333,040
Notes in Circulation	—	—	—	—	10	19	—	613	—	17	—	659
	1.414,984	56,749	256.651	75,104	1.268,104	342,947	1,435,376	85,700	861,660	892,904	146,970	6,837,149

* Current Accounts, £4,005,273; Deposit and other Accounts, £2,329,895.

PROVINCIAL CLEARING-HOUSE RETURNS

[000's omitted]

Date	Birmingham	Bradford	Bristol	Hull	Leeds	Leicester	Liverpool	Manchester	Newcastle-on-Tyne	Nottingham	Sheffield	Southampton
1953	£	£	£	£	£	£	£	£	£	£	£	£
May	21,490	17,516	5,443	6,358	11,292	7,362	44,077	34,981	15,916	4,498	9,187	1,416
June	17,588	15,472	5,062	5,947	9,910	7,498	42,498	32,267	14,865	4,399	8,770	1,373
July	19,561	19,022	5,443	6,145	11,846	7,909	45,004	34,993	15,504	4,445	9,424	1,442
August	17,238	13,889	5,102	6,710	[illegible]	[illegible]	[illegible]	32,796	13,222	4,547	7,303	1,463
September	14,974	15,708	4,721	6,030	[illegible]	8,103	41,959	34,015	13,330	3,800	7,738	1,341
October	17,316	19,501	5,569	[illegible]	11,291	8,409	51,035	38,868	14,516	4,683	8,792	1,401
November	21,999	15,855	5,285	5,662	10,381	7,925	44,324	37,371	14,457	4,407	10,074	1,347
December	20,914	18,746	5,295	5,575	10,209	8,576	51,311	39,531	17,713	4,226	9,684	1,374
1954												
January	29,028	19,848	6,816	7,515	14,376	10,613	53,658	42,543	18,255	5,652	10,641	1,743
February	24,142	14,421	5,532	6,190	11,509	8,025	46,753	38,433	17,123	4,332	9,265	1,537
March	21,315	19,183	5,984	6,199	11,360	9,867	54,818	41,860	13,395	4,374	9,478	1,402
April	19,041	18,778	5,313	5,510	10,157	8,180	47,677	38,048	14,045	4,214	9,434	1,367
May	25,586	18,813	5,961	6,577	11,998	8,641	56,518	43,367	16,039	4,673	10,411	1,518

YEARLY PROVINCIAL CLEARING-HOUSE RETURNS

[000's omitted]

Date	Birmingham	Bradford	Bristol	Hull	Leeds	Leicester	Liverpool	*Manchester	Newcastle-on-Tyne	†Nottingham	‡Sheffield	Southampton
1942	128,228	106,344	101,364	38,787	57,197	43,611	239,347	621,956	75,702	24,062	43,603	5,891
1943	108,783	197,143	33,390	29,518	57,327	41,392	235,639	415,508	79,768	22,353	47,081	6,637
1944	90,201	94,055	34,139	30,403	59,912	41,451	264,679	170,732	88,596	21,004	47,861	8,310
1945	93,355	99,623	35,653	39,255	64,149	46,034	287,332	186,828	95,648	24,219	47,627	9,969
1946	156,640	114,317	37,332	49,889	76,955	57,819	331,808	225,032	111,429	30,357	56,007	10,832
1947	169,375	115,669	41,898	58,731	86,305	68,139	338,747	299,739	115,902	34,750	70,971	12,871
1948	181,814	143,480	42,129	65,318	103,883	73,284	488,353	379,963	126,786	38,411	80,633	13,301
1949	174,224	163,140	42,670	65,141	115,195	81,320	574,464	401,522	134,305	40,083	80,240	13,280
1950	190,365	219,707	44,917	67,074	119,829	86,665	634,248	439,788	132,766	43,736	83,444	13,745
1951	223,924	240,585	59,430	76,999	129,539	96,431	644,373	507,883	143,542	49,151	95,872	16,408
1952	226,701	175,907	63,248	76,104	124,499	91,371	544,082	417,029	165,857	50,704	100,674	16,855
1953	230,589	210,390	64,051	76,314	129,927	[illegible]	537,462	436,534	181,809	53,504	106,535	17,043

* Area extended from July 1, 1947 † Area extended from May 5, 1947. ‡ Area extended from June 9, 1947.

LONDON BANKERS' CLEARING-HOUSE RETURNS

Month	Town Clearing	General Clearing	Total for the Month
1952	£	£	£
May	6,889,000,000	2,497,000,000	9,386,000,000
June	6,261,000,000	2,101,000,000	8,363,000,000
July	7,498,000,000	2,395,000,000	9,893,000,000
August	6,192,000,000	2,141,000,000	8,334,000,000
September	6,799,000,000	2,176,000,000	8,975,000,000
October	7,438,000,000	2,459,000,000	9,897,000,000
November	6,471,000,000	2,338,000,000	8,809,000,000
December	6,797,000,000	2,357,000,000	9,154,000,000
1953			
January	8,745,000,000	2,671,000,000	11,416,000,000
February	6,938,000,000	2,243,000,000	9,181,000,000
March	7,783,000,000	2,436,000,000	10,219,000,000
April	7,579,000,000	2,342,000,000	9,921,000,000
May	6,851,000,000	2,480,000,000	9,330,000,000
June	7,425,000,000	2,323,000,000	9,747,000,000
July	8,709,000,000	2,572,000,000	11,281,000,000
August	6,465,000,000	2,176,000,000	8,641,000,000
September	8,445,000,000	2,401,000,000	10,846,000,000
October	9,159,000,000	2,649,000,000	12,108,000,000
November	7,641,000,000	2,384,000,000	10,026,000,000
December	8,030,000,000	2,627,000,000	10,657,000,000
1954			
January	9,554,000,000	2,734,000,000	12,288,000,000
February	7,437,000,000	2,351,000,000	9,788,000,000
March	9,639,000,000	2,638,000,000	12,277,000,000
April	8,583,000,000	2,483,000,000	11,066,000,000
May	9,675,000,000	2,601,000,000	12,276,000,000

SCOTTISH CIRCULATION RETURNS

AVERAGE CIRCULATION AND COIN HELD DURING THE FOUR WEEKS ENDED SATURDAY, MAY 1, 1954

Name of Bank	Authorised Circulation	Average Circulation during Four Weeks ended as above			Average Amount of Bank of England Notes and Coin held during Four Weeks ended as above
		£5 and upwards	Under £5	Totals	
	£	£	£	£	£
1 Bank of Scotland	396,852	7,978,064	5,097,443	13,075,507	13,429,522
2 Royal Bank of Scotland	216,451	6,761,325	5,959,910	12,721,235	13,263,312
3 British Linen Bank	438,024	6,341,651	4,370,646	10,712,297	11,017,562
4 Commercial Bank of Scotland	374,880	10,406,133	6,283,905	16,690,038	17,683,813
5 National Bank of Scotland	297,024	6,798,666	4,416,422	11,215,088	11,899,751
6 Union Bank of Scotland	454,346	5,274,401	4,046,138	9,320,539	9,626,606
7 Clydesdale and North of Scotland Bank	498,773	14,510,785	6,139,171	20,649,956	21,667,151
Totals	2,676,350	58,971,025	36,313,635	94,384,660	98,587,717

IRISH CIRCULATION RETURNS

NORTHERN IRELAND

AVERAGE CIRCULATION AND COIN HELD DURING THE FOUR WEEKS ENDED SATURDAY, MAY 1, 1954

NAME OF BANK	Authorised Circulation	Average Circulation during Four Weeks ended as above			*Average Amount of Bank of England Notes and Coin held during four Weeks ended as above
		£5 and upwards	Under £5	Totals	
	£	£	£	£	£
1 Bank of Ireland	†722,966	1,549,186	248,233	1,797,419	1,169,557
2 Provincial Bank of Ireland . .	†247,607	1,259,158	215,036	1,474,194	1,416,042
3 Belfast Banking Company . .	350,000	1,103,127	72,394	1,175,521	1,819,776
4 Northern Bank	244,000	1,460,951	82,082	1,543,033	1,810,354
5 Ulster Bank	290,000	1,528,908	96,671	1,625,579	1,898,686
6 National Bank	†127,291	582,242	31.285	613,527	516,398
Totals	**1,981,864**	**7,483,572**	**745,701**	**8,229,273**	**8,660.813**

Each of the Bankers named in the above Return, who have in circulation an amount of Notes beyond that authorised by the Bankers (Northern Ireland) Act, 1928, have held an amount of Bank of England Notes and Gold Coin and Coin other than Gold Coin not less than that which they are required by the Treasury to hold during the period to which this return relates.

† These amounts are the latest amounts approved by the Treasury.
* This column includes Bank of England Notes deposited at the Bank of England which, by virtue of Sec. 9 (1) of the Currency and Bank Notes Act, 1928, are to be treated as gold coin held by the Bank.

LEGAL TENDER NOTE FUND AS AT MAY 1, 1954

ISSUE ACCOUNT

	£	s.	d.		£	s.	d.
Outstanding as at end of previous week	68,220,451	10	0	Redeemed during week ended May 1, 1954 . . .	1,039,164	0	0
Issued during week ended May 1, 1954 . . .	937,193	10	0	Outstanding as at May 1, 1954	68,118,481	0	0
	£69,157,645	**0**	**0**		**£69,157,645**	**0**	**0**

FOREIGN BANK RETURNS

BANK OF FRANCE

Francs (000,000's omitted)

Date	Gold	Private Discounts and Advances	Advances to State				Notes	Deposits
			In Occupation Costs	Treasury Advances	Fixed Advances	Special Advances		
May 13 . . .	201,282	1,182,852	426,000	195,000	53,849	181,200	2,290,248	112,172
„ 20 . . .	201,282	1,143,208	426,000	195,000	53,849	161,600	2,247,919	109,859
„ 26 . . .	201,282	1,151,436	426,000	195,000	53,849	172,000	2,272,409	128,966
June 3 . . .	201,282	1,170,158	426,000	195,000	53,849	192,200	2,318,600	115,469
„ 10 . . .	201,282	1,161,033	426,000	195,000	53,849	196,800	2,304,296	113,539
1953								
June 11 . . .	200,187	1,244,475	426,000	200,000	53,982	—	2,072,685	211,294

FOREIGN BANK RETURNS—(*continued*)

U.S. FEDERAL RESERVE BANKS

Dollars (000,000's omitted)

Date	Total Gold Reserves	Total Cash Reserves	Total U.S. Govt. Securities	Total Bills and Advances	Total Reserves
May 12	21,283	367	24,632	24,902	50,808
„ 19	21,281	370	24,687	24,866	50,938
„ 26	21,268	366	24,737	24,940	50,457
June 2	21,241	341	24,812	24,988	50,408
„ 9	21,238	351	24,987	25,165	50,595
1953					
June 10	21,354	307	24,637	25,095	50,518

Date	F.R. Notes in Circulation	Member Bank Reserve Deposits	Government Deposits	Total Deposits	Excess Member Bank Reserve Deposits	Reserve Ratio %
May 12	25,167	19,481	542	20,959	745	45·8
„ 19	25,412	19,686	418	21,027	746	45·8
„ 26	25,392	19,617	505	21,007	680	45·9
June 2	25,591	19,474	448	20,821	609	45·8
„ 9	25,541	20,032	250	21,046	1,164	45·6
1953						
June 10	25,705	20,168	6	20,935	717	45·8

U.S. FEDERAL RESERVE BANKS AND TREASURY COMBINED

Date	Monetary Gold Stock	Treasury and Bank Currency	Money in Circulation	Treasury Cash and Deposits with F.R. Banks
May 12	21,970	4,952	29,759	1,382
„ 19	21,971	4,956	29,707	1,259
„ 26	21,972	4,957	29,697	1,339
June 2	21,923	4,958	29,934	1,279
„ 9	21,924	4,957	29,873	1,075
1953				
June 10	22,537	4,850	30,003	1,295

GERMANY

COMBINED RETURN OF THE BANK DEUTSCHER LÄNDER AND THE LAND CENTRAL BANKS (in DM million)

	Gold	Credit Balances at Foreign Banks, Foreign Cash, Bills and Cheques	Inland Bills of Exchange	Advances and short term Lendings to the Federal Government and other Public Authorities	Bank Notes in Circulation	Bank Deposits	Non-Bank Deposits *
1954							
May 7	1,738·3	7,838·7	1,707·8	163·5	11,086·9	2,928·2	5,557·2
„ 15	1,738·3	7,945·6	1,658·7	165·3	10,641·3	2,603·5	4,966·0
„ 22	1,706·6	7,878·1	1,658·6	156·1	10,136·9	3,134·9	4,837·3
„ 31	1,706·6	7,961·1	1,772·3	148·7	11,498·3	2,686·3	5,542·6
June 4	1,706·7	7,983·6	1,721·2	148·5	11,339·8	2,754·3	5,462·4

* These figures include purchases of Equalisation Claims by Public Authorities.

INSURANCE AND ACTUARIAL RECORD

Insurance Accounts Analysed

THE 1953 trading reports of "composite" insurance offices, i.e., offices transacting all classes of insurance, including life, but depending on life profits only to a minor extent, make a more than usually interesting study. A feature of particular significance was a lack of buoyancy in premium income, both at home, in the United States of America, and certain other territories overseas, which would seem to presage an end in many countries of the post-war inflationary boom, and also to the embarrassing rate of premium increase to which the companies have been subjected in recent years. To the extent that stabilisation in premium income denotes a lessening in inflationary pressure, with a consequent halt in the increasing cost of claims and the provision of ever increasing reserves, a period of adjustment should be of benefit. During a prolonged period of inflation, however, expenses inevitably increase, and this inflation of costs tends to be more rigid than the inflation of premiums. If, therefore, the future rate of expansion in premium income is to be more lowly geared, a satisfactory levelling-off will need to be applied to the expense side of the business, a factor which can safely be left to the ever watchful company managements.

Insurance is often criticised because of the growth of its aggregate funds, which are misrepresented as being accumulations of over-charges to policyholders. The truth is, of course, that the reserves of an insurance company represent virtually its stock-in-trade, and that a high priority must always be accorded to the business of creating reserves. A feature of the companies' post-war reports has in fact been the very small percentage of total underwriting surplus remaining to swell the invested funds owing, in the main, to high taxation both at home and overseas. Far from the total funds being excessive, their restricted growth in the period of post-war inflation has given rise to extreme difficulty in providing insurance cover for accumulations of world commodities at inflated values, and has severely handicapped British companies in fulfilling their world-wide obligations. Company reports for the past year are noteworthy in that they mark what may well be the beginning of a more general endeavour to mitigate the effects of "reserve starvation" by capital reconstruction. The Rt. Hon. Lord Bicester, at the meeting of the *Royal Exchange* Assurance, said the directors had taken the view that the surplus arising from the underwriting operations should be retained as additional security for the protection of the increasing number of policyholders in the group, and added "at the same time they feel that by reason of the great expansion of the business in the post-war years a complete reorganisation of the capital structure is overdue." The premium income of the *Royal Exchange* is to-day approximately three times what it was before the war, a fact which reflects a vast increase in liabilities to the insuring public of many different countries, and Lord Bicester continued "the crushing rate of taxation which we have had to bear for the past 15 years has prevented the building up of all the reserves which your directors would like to see in order to match our heavier commitments. Moreover, the world-wide nature of our activities has

necessitated the retention of considerable assets in overseas territories; and this in turn has had the effect of limiting our liquid resources in this country." The issued and paid-up capital stock of the *Royal Exchange* Assurance has been raised from £946,978 to £2,850,000. The paid-up capital of the *General Accident* Fire and Life Assurance has been increased by £1,000,000 to £2,500,000, the last capital increase being in 1935 when the premium income was under £9 million, compared with some £42 million at the present time. The chairman, Sir Stanley Norie-Miller, Bt., mentioned the need, as the business further expands, to maintain steadily rising reserves and surpluses, particularly in countries overseas. The *Employers' Liability* Assurance also considered it expedient to capitalise part of the general reserve and make an issue of fresh capital. In this case the issued capital has been raised from £384,772 to £2,000,000. The previous change in the capital structure took place thirty-three years ago, and in this period the corporation's premium income has increased from £5,500,000 to £25,000,000.

Another aspect of administrative work which receives emphasis in the past year's accounts relates to the possibility of fluctuations in rates of exchange, specific transfers, or reserve adjustments, actuated by this event, being of more frequent occurrence than for many years past. Referring to a transfer of £100,000 to foreign exchange account in respect of this financial risk, which is, of course, inseparable from world-wide activities, the chairman of the *Phoenix Assurance*, Colonel the Hon. J. J. Astor, told shareholders "our national preoccupation during the last few years that the pound sterling should be able to 'look the dollar in the face' has tended to obscure the fact that there are other countries which have recently run into more serious difficulties than sterling has had to meet. The United Kingdom is entitled to feel some satisfaction that at the end of 1953 the pound sterling was stronger on world markets than at any time in these post-war years. Many other currencies have not been so strong, although the degree of weakness may have been concealed by various devices of exchange control. Nevertheless, for the efficiency of our business we have to hold funds in all currencies, and, notwithstanding unceasing efforts to secure maximum remittances to London, these funds are sometimes exposed to depreciation."

The aggregate fire, accident and marine premium income of the twenty-four selected companies comprised in our tables of trading results reached an all-time peak last year at £473,073,000, to show an increase of £15,945,000 (3·5 per cent.) on the 1952 figure which, at £457,128,000, itself constituted an advance of £43,394,000 (10·5 per cent.) on the 1951 total. The overall rate of progression will be seen to have very considerably slowed down, but the total surplus transferred to profit and loss, at £29,003,000 shows an increase of £3,559,000 on the previous year's total, and a profit ratio of 6·1 per cent. of the premiums, compared with 5·5 per cent. for 1952 and 5·2 per cent. in 1951. The aggregate of the reserves maintained in the trading accounts was £301,402,000, against £291,114,000 and £269,059,000 in the two preceding years. The improved underwriting result is entirely due to a generally more favourable experience in the accident account.

Results in the fire department were affected by a remarkable succession of windstorms in the United States, the total destruction by fire of the $30 million General Motors plant at Livonia, Michigan, and, in the United Kingdom, claims in respect of the East Coast flood disaster and fire wastage at an all-time record of over £25 million.

Fire Revenue Accounts for 1953

(£000's omitted)

	Premiums £	Claims Paid and outstanding £	Claims Paid and outstanding % of Premiums	Commission and Expenses £	Commission and Expenses % of Premiums	Taken to Profit and Loss £	Fund £
Alliance	5,876	2,015	34·8	2,709	46·1	982	6,200
Atlas	5,833	2,760	47·3	2.510	43·0	587	3,333
Caledonian	3,187	1,605	50·3	1,361	42·7	269	2.150
Commercial Union	22,055	10,115	45·9	9,467	42·9	1,800	19,488
Eagle Star	3,322	1,485	44·7	1,409	42·4	396	1,554
Employers' Liability	2,591	1,091	42·1	1.145	44.2	139	1,261
General Accident	3,637	1,367	37·6	1,565	33·1	539	3,375
Guardian	4,487	1,911	42·6	1,843	41·1	619	2,243
Licenses and General	641	318	49·6	302	47·1	58	256
Liverpool and London and Globe	11,932	5,537	46·4	5,431	45·5	1,018	7,773
London and Lancashire	11,185	5,337	47·7	5,149	46·1	786	4.474
London Assurance	7,871	3,633	46·1	3,682	46·8	519	3,936
North British and Mercantile	16,240	7,811	48·1	7,388	45·5	963	10,628
Norwich Union	6,450	2,771	43·0	2,998	46·5	623	3,551
Northern	8,824	4,136	46·9	3,962	44·9	686	4,412
Pearl	5,354	2,455	45·9	2,619	48·9	125	3,444
Phoenix	11,296	5,267	46·6	5,077	44·9	920	5,648
Provincial	945	353	37·4	409	43·3	172	378
Prudential	4,374	2,162	49·4	1.912	43·7	351	2,075
Royal Exchange	9,541	4,117	43·1	4,127	43·3	1,143	4,771
Royal Insurance	19,277	9,332	48·4	8,805	45·7	1,489	13,711
Scottish Union and National	5,500	2,777	50·5	2,500	45·5	117	4.500
Sun Insurance	6,759	3,152	46·7	3,037	44·9	648	2,703
Yorkshire	4,169	1,917	46·0	1,740	41·7	450	2,671
Totals	181,346	83,454	45·9	81·147	41·7	15,462	114,535
Totals for 1952	180,059	77,900	43·3	79,402	44·1	17,856	112,869
Totals for 1951	169,863	71,510	42·1	73,010	43·0	16,255	107,297

Transfers from fire trading account shown at £15,462,000 represent 8·5 per cent. of the premium income, against a corresponding figure of £17,856,000, or 9·9 per cent. of the premiums in the previous year.

Premiums in the accident and general account went further ahead, and at £247,597,000 now exceed the fire total by £66,251,000, the corresponding figure a year ago being £47,312,000. It is still the case that the more important sections—motor, employers' liability and third party risks—remain the problem classes of the accident account. Common law workmen's claims are still causing serious concern, and a further adjustment of rates seems necessary to meet increased liabilities. Public liability insurance, as applied to the many types of third-party risks outside the scope of the motor policy, was again in demand, but the conduct of the business was affected by conditions similar to those which have proved the liability risks of motorists and employers to be generally unprofitable to underwriters. Products liability insurance gained ground, and there was a growing volume of new business resulting from more and more employers turning to group accident insurance as a means of supplementing their workmen's National Insurance cover.

July, 1954

ACCIDENT AND GENERAL REVENUE ACCOUNTS, 1953

(£000's omitted)

	Premiums £	Claims Paid and outstanding £	Claims Paid and outstanding % of Premiums	Commission and Expenses £	Commission and Expenses % of Premiums	Taken to Profit and Loss £	Fund £
Alliance	5,352	2,482	46·4	2,060	38·5	597	3,194
Atlas	2,576	1,389	54·0	920	35·7	70	1,030
Caledonian	3,510	1,995	56·8	1,334	38·0	34	1,404
Commercial Union	25,960	14,033	54·1	9,272	35·7	1,000	17,007
Eagle Star	6,853	3,665	53·5	2,746	40·1	253	2,841
Employers' Liability	22,472	13,158	58·6	8,070	35·9	809	8,113
General Accident	37,481	20,599	55·0	13,929	37·2	1,245	18,192
Guardian	5,227	2,644	50·6	1,770	33·9	545	2,352
Licenses and General	968	546	56·4	380	39·3	667	387
Liverpool and London and Globe	15,147	9,448	62·4	5,360	35·4	171	7,309
London and Lancashire	12,255	7,018	57·3	4,560	37·2	157	4,902
London Assurance	4,898	2,929	59·8	1,536	31·4	254	1,959
North British and Mercantile	5,077	2,576	50·7	2,093	39·5	366	2,098
Norwich Union	7,013	3,667	52·3	2,617	37·3	551	3,053
Northern	7,776	4,198	54·0	3,076	39·4	99	3,888
Pearl	2,083	1,110	53·3	793	38·1	110	1,310
Phoenix	17,683	9,944	56·2	6,807	38·5	491	7,074
Provincial	3,096	1,558	50·3	1,258	40·6	232	1,238
Prudential	7,182	3,716	51·7	2,612	36·8	340	3,484
Royal Exchange	14,188	7,471	52·7	5,288	37·3	943	5,675
Royal Insurance	24,350	11,495	59·5	8,506	34·9	523	13,240
Scottish Union and National	1,742	947	54·4	651	37·4	69	873
Sun Insurance	7,315	3,911	53·5	2,795	38·2	537	2,926
Yorkshire	7,393	4,154	56·2	2,699	36·5	161	3,151
Totals	247,597	137,653	55·6	91,072	36·8	10,224	116,700
Totals for 1952	227,371	127,373	56·0	83,687	36·8	3,422	107,229
Totals for 1951	196,127	113,216	57·7	72,105	36·8	491	93,554

The accident results for the year reflect a more favourable outcome in the motor section. The general effect of the improvement in this section—the most important source of revenue in the accident department—may best be stated in the words of a company chairman "the substantial losses incurred on motor business over the past decade have largely negatived the profits made on other classes of risk, but there are now grounds for hoping that improving motor results will enable us to reap the full benefit of underwriting in these other sections." The chairman added "we are still a long way from obtaining a reasonable return on motor insurance." The profit transfer of the accident and general account, as shown in our table, was equivalent to 4·1 per cent. of the premiums for 1953, compared with 1·5 per cent. in 1952 and 0·25 per cent. in 1951.

The marine insurance market is suffering from a position where it can too easily absorb the volume of business on offer. As a result of intensified competition for business available, cargo rates have further deteriorated, and in many cases are considered so inadequate that prudent underwriters prefer the business to pass them. In the hull market, international competition led to the abandoning of the attempt to secure a 10 per cent. surcharge on premiums to offset the continuing increase in the cost

of ship repairs. It is said there are signs that, in the not too far distant future, competition may reduce the cost of ship repairs, and this would, of course, have a very beneficial effect upon the results of hull underwriting.

MARINE REVENUE ACCOUNTS, 1953
(Including Aviation and Transit Business)
(£000's omitted)

	Premiums £	Claims £	Commission and Expenses £	Taken to Profit and Loss £	Fund £	% of Premiums
Alliance	2,258	1,977	374		3,761	166·6
Atlas	759	522	109	100	1,273	167·7
Caledonian	435	335	76	50	875	201·0
Commercial Union	2,378	1,925	288	200	3,921	164·9
Eagle Star	1,777	1,477	208	75	1,953	109 9
Employers' Liability	497	518	80	15	699	140·7
General Accident	762	886	80	150	1,203	157·9
Guardian	1,412	976	190	211	1,921	136·0
Licenses and General	379	428	19	---	436	115·0
Liverpool and London and Globe	1,655	1,262	310	130	3,338	201·7
London and Lancashire	4,358	3.491	696	500	6,232	143·0
London Assurance	3,541	2.513	437	350	5.266	148·7
North British and Mercantile	1,703	1,322	295	217	2,627	154·3
Norwich Union	1.171	1,000	150	75	1,820	155·4
Northern	5,836	5,077	293	297	8,003	137·1
Phoenix	2,300	1.800	378	150	3,808	165 6
Provincial	794	689	28	150	1,454	183 0
Prudential	376	293	34	25	860	229 0
Royal Exchange	1,884	1,530	220	209	3,753	199·2
Royal Insurance	3,124	2,417	615	253	7,005	224·2
Scottish Union and National	1,398	1,109	279	100	1,912	136·7
Sea	2,097	1,630	287	110	2,770	139·0
Sun Insurance	1.292	1,053	222	100	2.054	159·0
Yorkshire	1.944	1,518	222	150	3,223	166·0
Totals	44,130	35,748	5,890	3,317	70,167	159 0
Totals for 1952	49,698	37,048	5,963	3,977	71,016	142·9
Totals for 1951	47,744	29.408	5,709	4,764	68.208	142·9

While 1952 was a noteworthy one for insurance shareholders, being marked by a rise in dividends of a catholicity rarely seen, the past year has not been without benefit to proprietors. Of the eighteen companies included in our table of interest income and dividend costs, the *Alliance*, *Caledonian*, *Commercial Union*, *Eagle Star*, *Guardian*, *London Assurance*, *London and Lancashire*, *Northern*, *Royal Insurance* and *Scottish Union and National*, all raised their dividends. Capital reorganisations, carried out on favourable terms to shareholders, by the *Employers' Liability*, *General Accident* and *Royal Exchange* Assurance, have already received mention in this article. In addition, the *Atlas* Assurance subdivided its shares and capitalised £550,000 of the reserves to pay up part of the uncalled capital ; the Commercial Union, with a view to a broadening of interest in the company, arranged for its stock to be quoted in 5*s*. instead of £1 units, while the *North British and Mercantile* took £1,031,250 from reserve in payment of uncalled capital on partly paid shares.

Insurance dividends are traditionally paid out of interest earnings, leaving the underwriting profit to be ploughed back into the all-important reserves. So far as it

is possible to equate the dividend cost with net interest earnings, more especially having regard to the varying treatment of profits tax and E.P.L. as between offices, our table shows net interest income, at £11,401,070, in excess of the dividend cost by £3,498,234. If life profits and fees, often considered with interest income as a source from which dividend distributions are met, be included, the excess is brought up to £4,295,605.

TABLE OF NET INTEREST INCOME—DIVIDEND COSTS—LIFE PROFITS AND FEES—1953

	Net interest income £	Net dividend and or interest cost £	Excess interest income over dividend cost £	Life profits and fees £
Alliance	467,421	462,000	5,421	115,512
Atlas	247,288	181,500	65,788	29,917
Caledonian	149,736	106,562	43,174	16,912
Commercial Union . .	1,581,279	1,119,525	461,754	89,210
Eagle Star	492,170	374,626	117,544	51,814
Employers' Liability	428,099	190,463	237,636	55,816
General Accident	803,168	336,875	466,293	12,233
Guardian . . .	311,298	227,008	84,290	41,621
London Assurance . .	444,342	311,008	133,334	20,167
London and Lancashire . .	761,787	665,311	96,476	24,582
Northern	448,799	255,643	193,156	39,472
North British and Mercantile	915,913	613,500	302,413	50,227
Phoenix	849,000	480,107	368,593	56,972
Royal Insurance	1,907,377	1,693,979	213,398	45,000
Royal Exchange . .	590,530	260,126	330,404	82,268
Scottish Union and National .	241,588	132,000	109,588	24,221
Sun Insurance . .	451,982	330,000	121,982	* 3,476
Yorkshire	278,993	132,003	146,990	37,951
Totals	11,401,070	7,902,836	3,498,234	797,371
Totals for 1952	10,218,898	7,175,731	3,043,167	732,774
Totals for 1951	9,567,203	6,378,410	3,188,793	665,990

* Miscellaneous income (life business transacted by "Sun Life").

In general, it may be said that the operations of British insurance in the past year proved favourable for the companies, and resulted in a further strengthening of their already strong financial position to the ultimate benefit of both policyholders and proprietors.

Alliance Assurance Company Limited

THE total premium income in the fire, accident and marine departments of the Alliance Assurance Company advanced during 1953 by £412,989 to £13,485,484, while the underwriting surplus, after providing for unexpired liabilities and charging overseas taxation of £310,036, amounted to £1,505,493, compared with £1,645,352 for the previous year. These satisfactory figures have been attained despite a fall in both income and surplus in the marine department, and, representing as they do an overall profit ratio of 10·1 per cent. of the premiums, compared with a ratio of 12·5 per cent. formerly, again show a high degree of underwriting success.

Mr. Anthony G. de Rothschild, the chairman, has expressed particular satisfaction at the increase in premium income and surplus of the fire and accident departments, since the figures have been assisted to a much less extent than in recent years by the influence of inflation upon sums assured. In fact, as a result of reduced values of stocks and commodities, both in this country and abroad, and the fall which took place in the profits of certain industries, there have been substantial reductions in many large fire and consequential loss insurances, combined, in many cases, with returns of premium. The chairman made mention of the very keen competition which has developed consequent upon the reduction in the volume of business available, and the resulting widespread reduction of premium rates is, he considers, a tendency likely to continue in the immediate future.

New business in the life department achieved a further record high level, with sums assured, after deduction of reassurances, of £8,532,922, against £7,911,269 in 1952 and £7,774,286 in 1951. A quinquennial valuation of the *Alliance* life and annuity funds was made as at December 31, 1953, and revealed a surplus of £2,730,787, of which £1,918,648 was allotted to policyholders, in addition to interim bonuses of £216,872 paid during the quinquennium. The sum of £237,280, being members' proportion of the surplus, has been transferred to their account, leaving £574,859 carried forward, against £475,776 brought in from the previous valuation. A compound reversionary bonus at the rate of 36*s*. per cent. per annum has been declared on participating policies issued in and after 1894.

A valuation of the *Economic* closed fund was made at the same date and showed a surplus of £92,707, of which £87,658 was allotted to participating policyholders in the form of a compound reversionary bonus of 3 per cent. per annum. In addition, £29,454 had been paid as interim bonuses. The balance of £5,049 was carried forward.

Following a quinquennial valuation of the *Alliance* capital redemption business, the sum of £139,000 was appropriated as surplus. One-fifth of this surplus, together with one-fifth of the members' proportion of the *Alliance* life and annuity surplus is credited to profit and loss account for the current year.

Separate revenue accounts and balance sheets are submitted for the *Alliance* life and annuity fund and for the *Imperial Life*, the *Provident Life* and the *Economic Life*. Premium income in the "Alliance" revenue account was £2,435,796 (against £2,243,933 in 1952 and £2,097,245 in 1951), consideration for annuities amounted to £313,657 (against £323,672), and net interest income was £890,849 (against £828,287). Claims by death absorbed £658,727 (against £600,677) and matured endowment assurances took £1,127,528 (against £1,125,711). At the end of the year, the "Alliance" life and annuity funds amounted to £28,857,303, an increase of £883,402 during the year. Referring to investments in the life balance sheet, the chairman reports a substantial favourable margin between the market and book values of securities, and points out that over a period of years there will be a further automatic increase of the definitely redeemable securities which still stand at a discount. The average gross income yield exceeded £4. 11*s*. per cent., a rate which it is stated may prove difficult to hold if current tendencies persist.

An increase of £349,858 took the fire premium income to £5,875,913, of which claims absorbed £2,044,971 (34·8 per cent.) and commission, expenses and overseas

taxation took £2,708,709 (46·1 per cent.). The underwriting profit at £982,290 represented 16·7 per cent. of the premiums, following 16·5 per cent. and 23 per cent. in the two preceding years, and the fire fund at £6,200,365 was equivalent to 105·5 per cent. of the premiums.

Accident premiums at £5,352,025 recorded an increase of £379,203 on the 1952 figure, the expansion extending to all classes of business in the account, both home and overseas. For the first time since 1945, the motor account has not shown a deficit, while as a result of a more favourable burglary underwriting experience during the last few years, it has been found possible to reduce rates for "all risks" insurances on jewellery and furs in certain areas in this country. On the other hand, employers' liability business in the United Kingdom remains a matter of concern to underwriters, despite increased rates applied to a large portion of the business. Taking the accident account as a whole, claims were £2,482,329 (46·4 per cent.), commission, and expenses and overseas taxation, £2,059,954 (38·5 per cent.). After adjustment of unexpired risks reserve, there emerged a surplus of £597,374, or 11·2 per cent. of the premiums, compared with 8·2 per cent. in each of the two preceding years. The fund at the year-end amounted to £3,194,232.

The 1951 marine underwriting account has been closed with a balance of £121,707, compared with the unusually high balance of £515,573 a year ago. In order to maintain the reserve for previous years at £425,000, the sum of £74,171 has been transferred from profit and loss. The total fund, at £3,761,001, is equivalent to 166·6 per cent. of the premium income, following 146·9 per cent. in 1952 and 149·5 per cent. in 1951. A reduction in marine premiums, from £2,573,618 to £2,257.546, reflected reduced sums assured and lower rates. Mr. de Rothschild finds little cause for optimism in the outlook for the marine results of the next year or two. Our customary summary of the year's results is set out below:—

	1953	1952	1951
	£	£	£
Fire insurance surplus	982,290	911,836	1,252,381
Marine insurance surplus	—	325,526	198,515
Accident and miscellaneous surplus	597,374	407,990	362,227
	£1,579,664	£1,645,352	£1,813,123
Less transferred to marine insurance account	74,171	—	—
	£1,505,493	£1,645,352	£1,813,123
One-fifth of quinquennial life profits	54,386	44,052	44,622
Trustee and other fees	33,326	29,729	31,085
One-fifth of capital redemption surplus	27,800	24,000	24,000
	£1,621,005	£1,743,133	£1,912,830
Expenses charged to profit and loss account	176,486	179,547	157,863
Net trading profit	£1,444,519	£1,563,586	£1,754,967
Net interest earnings	467,421	431,124	425,701
Profit on sale of fittings—subsidiary company	20,141	21,229	26,149
	£1,932,081	£2,015,939	£2,206,817
Taxation	493,553	619,041	653,176
Available for distribution	£1,438,528	£1,396,898	£1,553,641

The following table shows the disposal of the surplus available for distribution :—

	1953	1952	1951
	£	£	£
Fire account additional reserve	*100,000	250,000	—
Marine account additional reserve	—	—	200,000
Transferred to general reserve	400,000	250,000	—
Transferred to contingency reserve	—	—	500,000
Applied in reduction of office premises	51,527	59,173	53,689
Investments written down—subsidiary company	—	45,000	105,279
Added to carry forward	115,463	74,527	4,088
	£666,590	£678,700	£854,880
Widows' and Orphans' fund	109,938	103,448	94,511
Staff pension funds	200,000	200,000	200,000
Provision for dividend	462,000	414,750	404,250
Dividend per share, less tax	24s.	22s.	22s.

* subsidiary company.

Consolidated balance sheet assets total £60,702,606 (against £58,562,098 a year ago), of which members' assets account for £30,091,942 (against £28,757,034). The general balance sheet shows British Government securities at £6,865,315 (against £7,161,361) and other investments at £11,022,491 (against £10,848,427). Mortgages appear at £3,342,969 (against £3,001,016) and cash at £1,955,869 (against £1,283,605). Paid-up capital is £1,000,000 and, in addition to the strong funds held in the revenue accounts and the increased profit and loss balance, there is a general reserve of £3,650,000 (against £3,250,000 a year ago), a contingency reserve maintained at £500,000, and a reserve of £534,100 for future taxation. Separate balance sheets are presented in respect of the various life funds. Reference has already been made to the favourable margin between market and book values of investments relating to the life funds. The chairman mentioned also that in the case of the members' funds the favourable margin increased substantially during the year and there was a further increase in gross investment income.

Insurance Notes

The following telegram was sent to the Queen by the British Insurance Association:— "The chairman and members of the British Insurance Association offer their loyal duty and congratulations to your Majesty on the occasion of the celebration of your Majesty's birthday."

BIRTHDAY HONOURS

Included in the Birthday Honours List were the following names with insurance connections :—

Knights Bachelor : Col. J. G. B. Beazley, M.C., T.D., D.L. (chairman, *Reliance Marine* ; director, *Guardian*).

Col. Stanley Bell, O.B.E., J.P. (director, *National Employers' Mutual*).

John Cameron, Q.C. (director, *Scottish Widows'*).

Commander Stephen King-Hall (director, *United Kingdom Temperance & General Provident*).

Knights Bachelor :	J. L. Somerville, C.A., F.R.S.E. (Edinburgh ; chairman, *Royal Exchange*).
	I. A. R. Stedeford (director, *Atlas*).
G.B.E. :	Rt. Hon. Lord Aberdare, C.B.E. (London director, *Scottish Union & National*).
	Rt. Hon. Viscount Bridgeman, C.B., D.S.O., M.C., D.L. (Shrewsbury director, *Alliance*).
C.B.E. :	T. R. Patterson, J.P. (director, *Scottish Mutual*).
O.B.E. :	P. D. Priestman (director, *Century*, and *Friends' Provident & Century Life*).
	Major J. F. Simpson (director, N.W., *Friends' Provident & Century Life*).
M.B.E. :	J. W. Farnworth (manager for chief agents in British West Africa—British West Africa Corporation Ltd.—of *Norwich Union Fire* and *Legal & General*).

INSTITUTE OF ACTUARIES

The annual general meeting of the Institute of Actuaries was held in the Hall of the Chartered Insurance Institute on June 14 last, the President, Mr. W. F. Gardner, C.B.E., occupying the chair. The total membership has risen during the past ten years from 1,664 to 2,112, and includes 793 Fellows, 291 Associates, and 1,016 students.

The president, in his address, referred to the licence granted for the rebuilding of Staple Inn Hall and adjoining offices. The foundations of the Hall have been laid, and plans show that this will be reconstructed substantially in its original form, but its capacity will be somewhat increased by an enlarged gallery and by the inclusion of the space originally occupied by the lobby.

Among the year's activities, the president mentioned the committee set up to keep in touch with developments in electronic computation ; the "Bacon Report" and the appointment of three members of the Institute, Messrs. Gunlake, Honey and Menzler, to the committee set up by the Chancellor of the Exchequer to review the economic and financial problems of provision for old age.

At the close of his address, Mr. Gardner vacated the chair in favour of Mr. J. F. Bunford who has been elected president for the forthcoming year, and who will deliver his presidential address at the meeting in October next.

HOLIDAY RISKS

CONSIDERATION of holiday risks normally have reference to baggage and personal accident travel insurances. The extensions of a householders' comprehensive policy, although providing valuable cover, are not wide enough fully to protect the holiday maker's baggage, whether the holiday is to be taken in this country or abroad. Cover by the extension applies whilst the family is temporarily residing at an hotel, etc., in the United Kingdom, but does not apply to holiday trips abroad, and, in the case of fire and kindred risks, cover is limited

to 15 per cent. of the sum insured by the policy on contents. The most likely cause of loss of holiday luggage is through pilferage, theft or accident, while in transit, and these risks are not covered by the extensions referred to. Baggage insurance is more frequently sought by travellers going abroad for their holiday than by those spending their vacation in this country, but in either case, as claim records clearly show, baggage insurance on " all risks " lines is essential. Examination of the prospectuses issued by some of the companies which specialise in baggage insurance reveal the cost as very reasonable, usually a matter of a few shillings only. Two tables of rates are shown in order to cater for travel in Great Britain, Ireland, the Channel Islands and the Isle of Man on the one hand, and for world-wide travel on the other. The total value of property taken on holiday is seldom appreciated, but care must be taken to see that the baggage insurance is arranged on the basis of full value insured, and this should, of course, include clothing and the like being worn as well as that which is to be packed ; this is a point easily overlooked. Owners of expensive cameras or field glasses may be interested in the special policies which are offered by some insurers. Such policies provide protection, not simply for the holiday, but throughout the year. The cover afforded is on " all risks " lines with the minimum of exclusions. Cine cameras are popular for recording events and may represent considerable capital outlay, against the loss of which the wide cover provided by a " camera policy " cannot fail to appeal.

Insurance of the person whilst on holiday also merits attention. A personal accident policy can be effected for the period of the holiday only, or better still is it to effect the policy on a twelve months' renewable basis to cover all activities including the added perils associated with holidays, amongst which may be mentioned—bathing and yachting fatalities, the usual cliff accidents, fatal stings, burns from the upsetting of heating stoves, and, of course, the risk associated with travel by train, passenger steamer, coach or private car. If travel by air is contemplated, accident insurance for at least the flying period should be considered an essential.

While injury to the holiday-maker may involve considerable inconvenience and loss, a far more serious financial consequence may result if he, or a member of his family, cause injury to a third-party. The risks which surround the individual in his private life have received emphasis in these columns on many occasions. He may incur heavy liability at Common Law in many circumstances, the risk being substantially greater at a time when the individual and his family are free to indulge in various and sometimes unfamiliar pursuits. While a grocer's manager was playing cricket on the sands at Bridlington the bat flew out of his hands and struck a woman on the head. In the County Court he was subsequently ordered to pay £90. 12*s*. damages and costs to the woman, the judge remarking that although it was not wrong for the defendant to play games on the beach, it was his responsibility to see that the games played did not injure anyone. Damages of £2,100 were incurred when a suitcase fell from the luggage rack injuring a passenger.

" It is not always enough to say ' I'm sorry '—you may face a substantial claim ", so states a leaflet issued by a leading insurance company. A modest premium of 10*s*. will cover a household of six persons in respect of claims up to £25,000 any one accident, and, in addition, any legal costs that may be involved.

July, 1954

"PHOENIX" HOUSE PURCHASE SCHEME

The Phœnix Assurance announce a supplementary house purchase plan under which advances up to 75 per cent. are made, and can be further extended to 85 per cent. subject to a guarantee policy. The terms of the supplementary plan are the same as apply to the company's normal facilities for house purchase, with the exception that the rate of interest charged will be $4\frac{3}{4}$ per cent. fixed for the duration of the loan.

ACCIDENTAL DAMAGE CLAIMS

Rejecting a claim for damages by a man of 65 who sustained injuries when he slipped and fell at an hotel in Hull, Mr. Justice Slade said "The sooner plaintiffs get rid of the idea that because they slip someone has to compensate them, the better it will be for them and the better it will be for everyone." Plaintiff alleged that he slipped on some creosote, but no evidence had been brought to prove that it was creosote, said the judge, and if it were creosote there had been no evidence to prove that it was slippery.

LIFE ASSURANCE FOR R.A.F. CREWS

In a debate on Air Estimates in the House of Lords, the question of life assurance for air crews came up for discussion. Viscount Templewood said there was a need for some system of life assurance. At present if there was a fatal accident a widow received a pension, varying from 23*s.* a week for a sergeant to £130 for a flying officer, and £200 for higher ranks. Those sums were not sufficient. The risk involved was not deterring men from joining the R.A.F. but it was turning parents, and particularly schoolmasters against it. In addition to the somewhat significant payments a comprehensive life assurance scheme should be started. Such a scheme could be drawn up by the Air Ministry and the life offices and would remove a serious cause of anxiety from the R.A.F. The American plan was instanced. In the U.S. Air Force the next of kin of a man killed received a limited sum, consisting of six months' pay and allowances, but every man, whatever his rank, was insured for \$10,000, which on death was paid at an annual rate of $2\frac{1}{2}$ per cent., mounting in all to a gross total of \$11,000. Viscount Alexander said he hoped that any subsequent scheme of life assurance would not mean that a capital sum would be distributed at an annual rate of $2\frac{1}{2}$ per cent. otherwise the people concerned would receive small payment.

Replying for the Government, the Secretary of State for Air said that while it was certainly no criticism of Lord Templewood's suggestion about insurance to say that in effect such a proposal would amount to an increase in flying pay, it was a perfectly tenable belief that flying pay should be increased, and he would certainly look into the American scheme and see if anything could be done. The *caveat* must be entered, however, that the proposal would cost money.

DUTCH MOTOR INSURANCE

Dutch motor insurance companies are to raise their premium rates by 10 per cent. The new rates operate from July 1st, and the heaviest increase will be for transport and bus enterprises. A new clause is to be added to conditions providing for obligatory own-risk insurance, costing £5 to £10 for Holland and £15 to £20 abroad. The increase is said to be due to the material rise in accidents and increased cost of repairs.

UNITED BRITISH INSURANCE COMPANY

THE directors of the Motor Union Insurance Company announce that they have advised the directors of the United British Insurance Company of the intention of the Motor Union to offer to acquire at £3 per share the 5,486 ordinary shares of £1 each in United British not at present owned by Motor Union. The offer will be issued to shareholders concerned at an early date.

CONVENTION WITH SWITZERLAND ON SOCIAL INSURANCE

THE Convention with Switzerland on Social Insurance, which was signed at Berne on January 16, 1953, was brought into operation from June 1 by an Order in Council. The Convention deals with benefit for old age, widowhood, orphanhood and industrial injuries, and provides, among other things, that a national of either country who has qualified for benefit in one of the two countries shall receive that benefit while he is resident in the other country. It also relaxes the nationality conditions of the Swiss scheme in favour of citizens of the United Kingdom and Colonies, and enables insured persons who have not paid enough contributions in one country to qualify for a pension under that country's scheme, to receive a supplement to the pension payable by the other country.

ISRAEL: NATIONAL INSURANCE LAW

THE National Insurance Bill enacted by the Knesseth (Israel Parliament) came into force on April 1 last. From that date, all workmen's compensation insurances, which in the past were placed with private insurers, automatically ceased when the Government assumed liability for working accidents in respect of all employees in the country. The Government charges a premium rate varying according to the character of the risk involved in the particular employment. Employers may either pay the premiums due direct to the new Government agency or through the income tax collection centres.

Although liability under the Workmen's Compensation Ordinance has been taken over by the State, employers still remain liable to their employees under the Civil Wrongs Ordinance, which provides for unlimited legal liability of employers for injuries due to negligence. The Government tried to shift that liability, too, to the new Government agency, but the trade unions objected to giving up the rights of personal claims of injured workers against their employers. Insurance companies have decided to continue granting cover against this risk. As a temporary measure, the Israel Insurance Association has decided to charge for such insurances 20 per cent. of the previous workmen's compensation rates, which included this liability under the Civil Wrongs Ordinance.

LONDON AND MANCHESTER ASSURANCE

THE directors of the London and Manchester Assurance recommend a dividend of 11*s.* per £1 share, free of income tax, or 55 per cent., in respect of the year ended March 24, 1954. This compares with 10*s.* per share, or 50 per cent., tax free, from 1948–49 to 1951–53.

A reversionary bonus of 30*s.* per £100 sum assured for the year ended March 24, 1954, has been declared on ordinary branch with-profit policies.

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New policies were issued during the year in the ordinary branch for sums assured totalling £4,044,509, and in the industrial branch for sums assured totalling £5,818,432. The meeting will be held July 15.

INNKEEPER'S LIABILITY

The second report of the Law Reform Committee recommends modification of the law relating to the liability of innkeepers for loss of or damage to property. The suggested changes clarify the distinction between innkeepers and proprietors of other accommodation; raise the statutory limitation of liability provided by the Innkeeper's Liability Act, 1863, for goods not deposited for safe custody or lost by the innkeeper's act or default from £30 to £100; and restrict liability for motor vehicles taken to an inn.

In spite of changed circumstances the committee was against altering the basic distinction between innkeepers, who are under a strict liability to travellers at Common Law in regard to the loss of property, and the proprietors of other establishments, who are only under a liability where negligence is established

The committee does, however, recommend that in regard to motor vehicles the innkeeper's liability should be based on negligence, and that as a corollary he should no longer have a lien for his charges on a traveller's motor vehicle. A second important recommendation is that "travellers" to whom an innkeeper's strict liability extends should be confined to those who stay the night at the inn or by whom or for whom a bedroom is engaged.

Representations were received by the committee that the existing Common Law liability of an innkeeper as virtually the insurer of his guests' goods—a liability that cannot be restricted—should be altered. The committee concluded, however, that except in the case of motor cars there was no evidence of hardship, and that it was not unreasonable that innkeepers (who hold themselves out as willing to provide food and lodging for all comers) should be expected to insure against liability for loss of travellers' goods.

NOTED AUSTRALIAN VISITOR

Mr. M. C. Buttfield, general manager of the *Australian Mutual Provident* Society, is on a visit to England, and is accompanied by his wife and elder daughter. Apart from attending the International Congress of Actuaries in Madrid, Mr. Buttfield hopes to visit other offices in the United Kingdom, and, on leaving this country in September, to renew contacts with many American offices on his way home.

SEA INSURANCE

A statement issued by the Sea Insurance Company refers to rumours that negotiations are in progress which would alter the company's present status. "The company has no knowledge of any offers or negotiations connected in any way with its shares."

PRUDENTIAL'S NEW RECORDS

PROGRESS of the Prudential Assurance Company in 1953 marked many new records. Income from all sources was higher by £8,438,739 at £128,776,127, while total assets passed the £700 millions mark to register an increase on the year of £44,546,184. Life premium income (ordinary and industrial) was £85,569,813, as compared with £81,478,025 in 1952, while the combined life funds total £648,686,342, against £609,935,034 a year ago. New business written in the past year consisted of 1,487,853 policies (ordinary and industrial) for new sums assured of £198,902,856, following 1,525,002 policies for £190,402,539 in 1952. Of new ordinary branch sums assured at £120,848,332, policies assuring the sum of £51,506,034 were in respect of overseas business. Of the combined surplus in the life branches, at £20,279,345 (against £18,235,113 a year ago), policyholders receive £15,142,876 (against £13,314,307 in 1952), and the contingency fund, £3,500,000 (against £3,350,000), while £1,458,333 (against £1,383,334) is taken to profit and loss.

In the general branch, revenue premiums were £11,982,787 (against £11,045,971 a year ago) and included over £6,000,000 (against £5,700,000) from overseas business. In addition, premiums of £1,803,823 (against £1,692,877) were earned by the American subsidiary in New York.

Ordinary branch participating life policies in the United Kingdom receive an increased reversionary bonus of 38*s.* (34*s.* in 1952) per £100 sum assured, while the bonus for premium-paying industrial branch policies is increased by 2*s.* to 30*s.* per £100 sum assured ; allocations are also made in respect of participating group pension policies. Higher dividend distributions were again made in respect of both the " A " and " B " shares.

Insurance Appointments, etc.

ALLIANCE ASSURANCE COMPANY.—Mr. Anthony G. de Rothschild has been re-elected chairman and Mr. W. J. Keswick a deputy chairman. Mr. T. D. Barclay has also been elected a deputy chairman in the place of Sir Robert A. Burrows, K.B.E., who while remaining on the board, has relinquished his duties as a deputy chairman.

CANADA LIFE ASSURANCE SOCIETY.—Mr. Neil J. McKinnon to be a Member of the Board representing the Shareholders.

LONDON & LANCASHIRE INSURANCE COMPANY.—The Hon. R. M. Preston, D.S.O., has been re-elected chairman, and Mr. Thomas Wallas, deputy chairman. Mr. Guy Mair, LL.B., and Mr. Stanley W. G. Sloan, B.A., LL.B., W.S., have been appointed to the Glasgow local board.

PHOENIX ASSURANCE COMPANY.—Col. The Hon. J. J. Astor has been re-elected chairman, and Mr. G. Tyser a deputy chairman.

THE BANKERS'
INSURANCE MANAGERS' AND AGENTS'
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The Banking Half-Year

ALTHOUGH the six-months to June 30 brought little relief from international tension, it can at least be credited with some gains on the economic front. One aspect of this improvement, as far as the United Kingdom was concerned, was the further solid progress towards a completely flexible financial system. The London gold market was re-opened after many years of inertia, the international use of sterling was broadened, and London money and bill rates fluctuated freely in response to variations in supply and demand. An example of flexibility was provided by the reduction of Bank Rate in May, the cut from 3½ to 3 per cent. being made not as a matter of Government policy, but to meet financial conditions prevailing at that time. The official minimum had become demonstrably too high in relation both to London money market rates and to the rates ruling in leading overseas financial centres, and the latter disparity was bringing an embarrassing influx of foreign money for use in Britain.

DEPOSITS AND CALL MONEY
(in £ million)

Bank	Deposits			Call Money		
	June 30, 1953	Dec. 31, 1953	June 30, 1954	June 30, 1953	Dec. 31, 1953	June 30, 1954
	£	£	£	£	£	£
Barclays	1,307·6	1,389·1	1,381·5	78·2	81·3	80·8
Coutts & Co.	49·4	53·5	52·9	7·6	7·0	6·3
District	241·5	252·3	241·7	17·5	19·0	17·2
Glyn, Mills & Co.	62 4	70·9	58·8	10·8	18·4	8·4
Lloyds	1,141·0	1,205·6	1,174·0	83·5	88·1	79·7
Martins	323·7	330·7	318·2	32·8	34·3	28·9
Midland	1,345·7	1,444·1	1,388·1	77·3	84·9	83·0
National	77·1	79·5	82·5	10·7	14·0	14·0
National Provincial	800·5	870·9	841·6	67·1	77·0	63·1
Westminster	812·4	854·5	853·5	67·2	66·1	59·0
Williams Deacon's	138·1	143·1	140·4	16·4	10·6	14·1
Total . . . £	6,299·4	6,694·2	6,533·2	469·1	500·7	454·5
Per cent. of Deposits	—	—	—	7·4	7·5	7·0

Partly as a result of the Bank rate cut, but also because confidence had been strengthening and savings were accumulating, quotations for gilt-edged stocks advanced strongly, enabling the Government to adopt a more ambitious policy in handling its loan maturities. The latest instances of the increasing strength of the Treasury are the successful conversion of the greater part of the 3 per cent. National Defence loan into 2 per cent. Conversion stock 1958–59 and last month's successful operation for dealing with the £535 million of Serial Funding Stock due for repayment next November. It may be admitted that the further improvement in the financial climate during the past half-year has been fortuitous to the extent that it reflects a world-wide trend towards economic stability; but it is also due largely to the British Government's wise policies and astute financing.

The course of Government finance, and banking reactions thereto, affected banking figures at several points. As usual, heavy revenue collections during the March quarter, and the consequent ability of the Government to pay off Treasury bills, left the deposits of the banks lower at the end of June than at the end of December last year. The total published deposits of the eleven London clearing banks, at £6,533·2 million, however, were £233·8 million higher than at June 30, 1953, the rise being rather larger than that recorded during the preceding twelve months. A smaller part of the increase in the year to June 30, 1954, moreover, reflected government borrowing from the banks and a larger part represented the growth of finance for private industry.

Net deposits rose during the year by less than gross deposits, the expansion being only £210·6 million to £6,233·9 million owing to an increase in balances and cheques in course of collection. Each of the "Big Five" banks reported a substantial addition to its gross and net deposits, but the deposit totals of the other clearing banks shewed relatively little change.

Changes in the volume and form of Government indebtedness to the banks, and variations of policy as between one institution and another, are evident in the disposition of the banks' assets. The reduced need for floating debt creation is revealed in the drop of £14·6 million in the banks' call loans outstanding and of £68·8 million in their aggregate holding of Treasury bills during the year to June 30. The call loan item, representing largely bank finance for the discount market against Treasury bills and short-term Government bonds, also declined during the twelve months to June 30, 1953, but the banks' Treasury bill holding rose during that period by £167·8 million. During the past six months, the clearing banks' combined holding of Treasury bills dropped by £258·3 million—the result of the heavy revenue collections in January and February, when the gap between revenue and expenditure was being rapidly reduced, and of the reduced overall revenue deficit for the first quarter of the current financial year.

The reduction of the banks' Treasury bill portfolio during the whole of the past twelve months is due not only to these factors but to the Government's loan conversion schemes carried through during the period, and particularly to the funding scheme announced last October. The net effect of these operations, which were designed to

lengthen the maturity dates of the Government's loan obligations, was to convert part of the Treasury bills held by the banks into longer-dated securities, which rank in their statements as investments. While the total of Treasury paper held by the

TREASURY AND OTHER BILLS
(in £ million)

Bank	Treasury Bills			Other Bills		
	June 30, 1953	Dec. 31, 1953	June 30, 1954	June 30, 1953	Dec. 31, 1953	June 30, 1954
	£	£	£	£	£	£
Barclays	233·5	271·5	219·1	18·6	21·9	32·6
Coutts & Co.	3·0	6·5	6·2	·3	·7	·6
District	44·2	47·3	35·4	1·3	1·4	·8
Glyn, Mills & Co. .	3·5	4·3		·3	·3	·5
Lloyds	199·7	234·6	198·4	9·3	12·5	6·6
Martins	54·5	50·5	41·4	1·8	3·0	3·2
Midland	298·5	328·6	243·4	18·3	28·1	36·3
National	2·0	1·0	2·3	1·8	·9	2·3
National Provincial . .	130·7	189·5	155·9	4·0	3·1	3·8
Westminster	160·5	179·5	158·9	4·0	3·5	4·0
Williams Deacon's . .	18·6	24·9	18·9	·7	·5	·5
Total . . . . £	1,148·7	1,338·2	1,079·9	60·4	78·9	90·2
Per cent. of Deposits .	18·2	19·9	16·5	1·0	1·2	1·4

banks as a whole was reduced, the accompanying table shows considerable variations among the individual institutions. Barclays, the District and Martins all reduced their holdings moderately, and the Midland held £55·1 million less Treasury paper on June 30 than it did a year earlier. On the other hand, the Treasury bill item in the statements of Lloyds and the Westminster showed little change during the twelve months, while the National Provincial actually increased its Treasury bills by £25·2 million.

Banking investments in bills other than Treasury bills increased further during the six months to June 30 making a rise of £29·8 million during the year to that date. Larger holdings of commercial and similar bills by Barclays and the Midland account for the whole of the rise, and these institutions may be said to have made a sizeable switch over of Treasury into non-Treasury paper.

By far the most striking change in the half-yearly bank statements is that shown by investments, which increased by £36·2 million during the first six months of this year, and by £175 million over the whole year to June 30. This expansion follows a similar growth during the preceding twelve months, and is largely the result of the Government's policy of lengthening the life of its loans. Each of the funding or new loan operations undertaken during the past two years has produced a security well suited to investment by the banks, and the net effect has been gradually to edge bank holdings away from Treasury bills into securities which, while giving a higher return

than bills, are also of considerably longer date, thus reducing the incubus on the Treasury of an ever-increasing weight of floating debt. Among the " Big Five " banks, the only one which failed to increase its investments substantially during the year to June 30 was the National Provincial—the one institution to add to its holding of Treasury Bills during the same period.

INVESTMENTS AND ADVANCES

(in £ million)

Bank	Investments			Advances		
	June 30, 1953	Dec. 31, 1953	June 30, 1954	June 30, 1953	Dec. 31, 1953	June 30, 1954
	£	£	£	£	£	£
Barclays	461·1	501·7	511·8	365·5	353.5	376·8
Coutts & Co.	19·2	20·2	18·6	13·7	13·4	15·5
District	93·6	93·8	97·8	59·0	60·9	63·6
Glyn, Mills & Co.	19·9	23·0	19·7	20·1	15·8	22·8
Lloyds	390·6	413·8	432·2	323·2	301·2	313·0
Martins	119·8	120·9	117·4	79·9	83·5	91·7
Midland	450 2	488·0	489·9	348·1	343·6	372·9
National	27·9	28·9	27·9	30·7	30·1	30 6
National Provincial	250·4	252·8	253 0	254·2	244·2	267·5
Westminster	256·3	281·4	294·5	229·0	222·8	240·1
Williams Deacon's	47·4	50·7	48·6	39·5	37·8	42·5
Total £	2,136 4	2,275·2	2,311·4	1,762·9	1,706·8	1,837·0
Per cent. of Deposits	33 9	34·0	35·4	28·0	25·5	28·1

Evidence of increased assistance by the banks to private industry is provided by the recent rise in advances. This item declined during the second half of last year, but the lost ground was more than recovered during the first six months of 1954. The increase of £74·1 million in the year to June 30 was fairly well spread between the larger banks, except in the case of Lloyds, whose outstanding loans declined slightly. The general growth of banking accommodation during the year is doubtless due to a combination of several influences, including increased trade activity, the cessation of Government participation in commerce, and a firmer tendency in some important raw materials. Any conclusions on this aspect of banking, however, must always be subject to the influence on aggregate banking advances of the needs of the nationalised industries, particularly electricity and gas. These industries borrow heavily from the banks, subsequently paying off their loans from the proceeds of new issues of stock to the public, and their operations are a distorting influence on figures recording banking assistance to trade and industry.

The volume of the banks' acceptance business at June 30 was not very different from that recorded a year earlier, the total of £331·9 million comparing with £319·2 million at the end of June last year. In view of the course of commodity prices and

the activity of overseas trade, the absence of a larger rise may perhaps be attributed to increasing competition for this type of business.

Banking profits during the half-year should have compared favourably with those for the corresponding period of 1953, largely because the banks had a larger volume of funds at their disposal. These funds, moreover, were employed to a greater extent in investments and to a smaller extent in Treasury bills. This should have given the banks some advantage, although the new investments they have acquired during the past twelve months were probably not very high-yielding securities. Although gradually increasing, the total of advances was lower on the average than in the first six months of last year, but investments and advances—the most remunerative of banking assets—represented 63·5 per cent. of total banking deposits at June 30 last against 61·9 per cent. a year earlier, in spite of the increase in deposits that had taken place in the meantime. With Bank rate at a lower figure, the average return per cent. on advances was doubtless rather less, but this should have been largely compensated by larger overall returns from commissions and similar revenue. The rise in investment values must have strengthened the banks' inner reserves, and there is no reason to suppose that the need for provisions for doubtful debts was any more pressing. It is probable, however, that establishment charges in general were, if anything, higher this year than they were in 1953.

The bank dividend table for the first six months of recent years shows that distributions to shareholders have been increased generally for the first time after a long period of stability. Most of these increases, of course, had been foreshadowed when final dividends were raised at the end of 1953. The only exception is the increased payment on the £4 shares of the Westminster Bank, which also announced a reorganisation of its capital, as recorded on page 96 of this issue. With the Westminster dividend brought into line with the general rise in bank distributions, the Midland is now the only leading bank which has refrained from raising its return to shareholders.

DIVIDENDS: DISTRIBUTIONS PER CENT. PER ANNUM

BANK	FOR FIRST SIX MONTHS						
	1948	1949	1950	1951	1952	1953	1954
Barclays "B"	14	14	14	14	14	14	10(*a*)
District "A" and "C" .	18⅓	18⅓	18⅓	18⅓	18⅓	18⅓	20
Lloyds "A"	12	12	12	12	12	12	14
Martins	15	15	15	15	15	15	17½
Midland . . .	16	16	16	16	16	16	16
National	10	10	10	10	10	10	10
National Provincial . . .	15	15	15	15	15	17	17
Westminster £4 Shares .	18	18	18	18	18	18	20
Williams Deacon's "A" .	12½	12½	12½	12½	12½	12½	14
DISCOUNT HOUSES							
Alexanders	15	15	15	15	15	15	15
National Discount "A" .	10	10	10	10	10	10	10
Ditto "B" .	10	10	10	10	10	10	10(*b*)
Union Discount . . .	10	10	10	10	10	10	10(*b*)

(*a*) On new ordinary stock after capital re-organisation and capitalisation issue. (*b*) On increased capital.

The discount houses must have had a relatively profitable half-year, with a reduction in Bank rate, which gave them good profits on bills previously purchased. In addition a reasonably good margin was maintained between money and discount rates, and the discount market's main problem was securing an adequate supply of bills against competition. Opportunities for profitable dealing in short bonds should have been plentiful during the half-year. The three largest discount companies distributed the same dividends as for the first half of 1953, but two of them paid the same rate on a larger amount of capital.

As shown in the following table, several of the Scottish and Irish banks, as well as the English banks, increased their dividends for the past half-year. In some cases, however, the changes merely brought the interim distribution for 1954 into conformity with annual rates already established at the end of last year.

BANK DIVIDENDS

BRITISH

Bank	Bank year ends :—	Dividends (actual) for :— First half of previous bank year	Second half of previous bank year	Past half-year
		per cent.	per cent.	per cent.
Alexanders Discount .	Dec. 31	7½	17½(*a*)	7½
Bank of Ireland . .	Dec. 31	6	9	6
Bank of Scotland .	End Feb.	6	7	(*b*)
Barclays . .	Dec. 31	5 on "A" stock and 7 on "B" and "C" stock	5 on "A" stock and 9 on "B" and "C" stock	5(*c*)
Belfast Banking .	Dec. 31	5½	5½	(*b*)
British Linen . .	Sept. 30	8	8	(*b*)
Commercial of Scotland . . .	Oct.	7½ on "A" shares and 5 on "B" shares	8½ on "A" shares and 5 on "B" shares	8 on "A" shares and 5 on "B" shares
District . .	Dec. 31	9⅜ on "A" and "C" shares and 5 on "B" shares	10⅝ on "A" and "C" shares and 5 on "B" shares	10 on "A" and "C" shares and 5 on "B" shares
Hibernian . . .	Dec. 31	5½	7½	5½
Isle of Man . .	Dec. 31	12	16½	12
Lloyds . . .	Dec. 31	6 on "A" shares and 2½ on "B" shares	8 on "A" shares and 2½ on "B" shares	7 on "A" shares and 2½ on "B" stock
Martins . . .	Dec. 31	7½	10	8¾
Midland . . .	Dec. 31	8	8	8
Munster and Leinster	Dec. 31	5(*d*)	7(*d*)	5(*d*)
National . . .	Dec. 31	5	6	5
National Discount	Dec. 31	5 on "A" and "B" stocks	5 on "A" and "B" stocks	5(*e*) on "A" and "B" stocks
National Provincial .	Dec. 31	8½	8½	8½
Northern . .	Dec. 31	5¼ on "A" shares and 2⅝ on "B" shares	6¼ on "A" shares and 3⅛ on "B" shares	5¾ on "A" shares and 2⅞ on "B" shares

BANK DIVIDENDS—BRITISH (*continued*)

Bank	Bank year ends :—	Dividends (actual) for :— First half of previous bank year	Second half of previous year	Past half-year
Provincial of Ireland .	Dec. 31	5	7(*f*)	6
Royal of Ireland .	Dec. 31	3	5	3
Royal of Scotland .	Oct.	8½	9½	9
Ulster . . .	Dec. 31	9	9	(*b*)
Union Discount .	Dec. 31	5	5	5(*g*)
Westminster .	Dec. 31	9 on £4 shares and 6¼ on £1 units	9 on £4 shares and 6¼ on £1 units	10 on £4 shares and 6¼ on £1 units
Williams Deacon's .	Dec. 31	6¼	7¼	7

(*a*) Including 5 per cent. cash bonus. (*b*) Not yet available. (*c*) On new ordinary stock after capital re-organisation and capitalisation issue. (*d*) Tax free. (*e*) On increased amount of "B" stock. (*f*) Including 1 per cent. cash bonus. (*g*) On increased capital.

Dividends announced by leading British banks operating overseas are set out below. Apart from one or two increases announced by Australian institutions, there were no changes. The dividends paid during the half-year by some of the Canadian banks were less than half the total dividends for the previous financial year, owing to the policy of these banks of paying an additional dividend when their annual accounts are closed.

FOREIGN AND COLONIAL

Bank	Bank year ends :—	Dividends (actual) for :— First half of previous bank year	Second half of previous bank year	Past half-year
		per cent.	per cent.	per cent.
Australia and New Zealand	Sept. 30	4	6	4
Bank of Adelaide	Sept. 30	4	5	5
Bank of British West Africa . . .	Mar. 31	3	7	(*a*)
Bank of London and South America .	Dec. 31	2	4	(*a*)
Bank of Montreal	Oct. 31		14(*b*)	6(*b*)
Bank of New South Wales . . .	Sept. 30	4(*b*)	4¼(*b*)	4½(*b*)
Bank of Nova Scotia	Oct. 31		18(*b*)	8(*b*)
Barclays (Dominion, Colonial and Overseas)	Sept. 30	4	4	4
British Bank of the Middle East. .	Mar. 31	2	5½	(*a*)
Canadian of Commerce	Oct. 31		12(*b*)	6(*b*)
Chartered of India	Dec. 31	7	7	(*a*)
Commercial of Australia.	June 30	5	5	5(*c*)
Commercial Banking Co. of Sydney .	June 30	4	4	4(*d*)
Dominion Bank (Canada)	Oct. 30	—	13(*b*)	6(*b*)
Eastern	Dec. 31	3	5	(*a*)
English, Scottish and Australian . .	July 1	3¼	9½(*e*)	3¼
Hambros	Mar. 31	5	12½	(*a*)
Hongkong and Shanghai	Dec. 31	£2 per share	£3 per share	£2 per shar
Imperial of India	(*f*)	8(*g*)	8(*g*)	8(*g*)
Ionian	Dec. 31	—	4	—
Mercantile of India	Dec. 31	7	7	(*a*)
National of Australasia	Sept. 30	4	4	4
National of Egypt	Dec. 31	4	16	(*a*)
National of India	Dec. 31	8	8	(*a*)
National of New Zealand	Mar. 31	3	7	(*a*)
Royal of Canada	Nov. 30	—	14(*b*)	7(*b*)
Standard of South Africa . . .	Mar. 31	5	6¼(*h*)	(*a*)

(*a*) Not yet available. (*b*) Quarterly payments. (*c*) Final dividend for year to June 30, 1954; paid on increased capital. (*d*) Interim dividend for 1953–54. (*e*) Including 2¼ per cent. centenary bonus. (*f*) Accounts half-yearly, June and December. (*g*) Tax free. (*h*) Paid on increased capital.

Extension of E.P.U.

By H. E. Evitt

ON June 30, E.P.U. clearing arrangements were extended for a further twelve months to June 30, 1955, but with some important changes. In order to clear the greater part of the cumulative deposits of the member debtor countries with the Union, bilateral agreements have been entered into by those debtors with the member creditors for the repayment of debts partly by an immediate cash payment and partly by funding operations over five, six and seven years. The debtors entering into these arrangements are the United Kingdom, France, Italy, Denmark and Norway, but Iceland and Turkey and some other small debtors are not yet ready to promise repayment. The creditors are Austria, Belgium, Germany, the Netherlands, Portugal, Sweden and Switzerland, who have all entered into the repayment arrangements. The arrangements are based on the cumulative surpluses and deficits outstanding as at April 30, when the total debt of the U.K. to the Union was about £173 million and the repayment arrangements cover over £141 million out of this total. The obligations undertaken by this country are shown in the following table :—

(In $ million)	Total Amount consolidated	Immediate Payment	Amount payable by Instalments
Austria	17	4¼	12¾
Belgium	84	21	63
Germany	140	35	105
Netherlands	70	17½	52½
Portugal	11	2¾	8¼
Sweden	48	12	36
Switzerland	25	6¼	18¾
Total	395	99	296

The immediate payments will be made in gold and the instalments will be paid in gold or dollars or in any currency designated by the creditor. The total instalment liability is, however, offset in the case of Germany and Austria by debt repayments due by those countries to the U.K. outside the Union accounts. Germany is making annual payments of £7½ million in respect of economic assistance rendered to her by the U.K. since the war, and these are to be entirely offset against E.P.U. repayments by the U.K., so that the instalment liability of $105 million will be extinguished in five years. In the case of Austria, her non-E.P.U. debt repayments are smaller than the U.K. liability, which is to be repaid over seven years, so that the offsetting will finish within five years and payments will then be due by the U.K. for the remainder of the period. The instalments to Switzerland are to be spread over six years and those to Belgium, the Netherlands, Portugal and Sweden over seven years. The immediate cash payments of $99 million were made during July out of U.K. gold reserves and for

the next five years this country will have to make monthly payments of about \$2 million, which will increase slightly in the sixth and seventh years.

France's deficit of \$312 million has been reduced to \$85 million by an immediate payment of \$56$\frac{3}{4}$ million in gold and dollars, and the Funding of \$170$\frac{1}{4}$ million on similar terms to those of the U.K. Italy, in return for new special credit arrangements, is repaying her entire deficit of \$113 million by an immediate payment of one-third in gold and the other two-thirds by instalments. For all these payments the debtor countries will receive credit in the books of the Union against their cumulative deficits, while the surpluses of the creditors will be similarly debited. During the existence of E.P.U. debtors will pay and creditors will receive the rates of interest fixed by that Organisation but, if and when E.P.U. is wound up, the debtors will pay interest at the rate of 3 per cent. per annum on all outstanding balances of funded debt. The total receipts of the main creditors are to be:—Germany \$327 million, Belgium \$164 million, Netherlands \$117 million and Switzerland \$110 million, of which they have received approximately 25 per cent. in gold from the debtors, and in addition they are to receive pro rata a sum of \$130 million which E.P.U. is to contribute from its convertible assets. This last concession, however, has been granted on condition that the creditors grant additional new credits to E.P.U., if required, up to a maximum of the amounts which they have received in immediate payments by debtors and from the distribution of convertible assets by the Union.

As a result of the immediate removal from the books of the Union of an appreciable amount of outstanding debt and the subsequent further reductions consequent upon these arrangements, it has been possible to introduce some important changes in the rules of the Union. In place of the former sliding scales of gold payments and book entries for debtors and creditors, a uniform arrangement of 50 per cent. in gold and 50 per cent. in book entries is to apply to debtors and creditors alike as from July 1, 1954. This means that by assisting in the cancellation of E.P.U. debts the Union has gained in solvency, as its receipts and payments in gold and dollars will now balance each month. An adjustment has also been made in the cumulative accounting positions of member countries. The new positions have been determined from the credit or debit balances as at June 30 by deducting from credits granted to or received from the Union by a member country the amount received or paid by it in gold in immediate settlement of debt. The net credit thus established will then be doubled to arrive at the member's cumulative accounting surplus or deficit. The former practice of returning gold to debtors is maintained, so that a member with a cumulative accounting deficit can acquire a surplus which will be settled as to one half in gold and one half by a book entry until the cumulative deficit is extinguished. Thereafter, of course, should the Union still continue and the new rules remain in force, further surpluses would be settled similarly. Finally, the borrowing quota of each member country has been increased by 20 per cent., so that the new terms of settlement which have eliminated the initial 20 per cent. gold free transfer will leave unchanged the total credit facilities available under E.P.U.

Notes and Comments

ANOTHER STEP TOWARDS CONVERTIBILITY ?

LAST July Lord Brand in his Presidential Address delivered to the Annual Meeting of the Royal Economic Society on July 2, 1953* pointed out that the restoration of a stable and convertible United Kingdom £ Sterling, at any rate for all current transactions, would be the greatest step of all towards the continuance here and elsewhere of a high level of employment and a growing standard of life. " To achieve it," he continued, " should be in my opinion the first aim of all parties in this country. It requires the co-operation of all leading countries, particularly of the United States and this country, whose currencies are so much the most important, but also of the other Western European countries. The obstacles are many, particularly to complete convertibility, but that is all the more reason for putting the attainment of this end in the very forefront of our policy." It must here be remembered that with convertibility our exporters may be exposed to fiercer competition and that, although Lord Brand speaks about current transactions, the key issue seems to lie in short-term capital movements which, under conditions of convertibility may easily threaten full employment.

Nevertheless, these views have now been widely, though not generally, recognised and accepted and it was exactly for the purpose of overcoming certain obstacles that a ministerial group, appointed by the Council of the Organisation for European Economic Co-operation, met in London on July 15 and 16 after preliminary talks by their deputies in Paris a month ago. Most of their time was devoted to the examination of the different problems which would arise if a number of member countries introduced convertibility.

Mr. R. A. Butler, the Chancellor of the Exchequer and chairman of the council of O.E.E.C., who had presided over the meeting, expressed afterwards in a press conference his satisfaction with the most successful outcome of these discussions. He said that this practical and in no sense final meeting had done much to prepare the way to a wider system of trade. After the general liberalisation of trade during recent years, the next step would now have to be the freeing of currencies which, however, could only be done by degrees.

The Ministers agreed on certain principles the application of which will be worked out in detail by their deputies who will also study a number of questions on which final agreement has not been reached.

What now is the outcome of this conference and to what degree have the Ministers found a common basis ? First, with regard to *trade* there seems to be agreement that member countries should move towards non-discrimination in imports and that bilateral agreements should be eliminated. Mr. Butler emphasised that such an advance in respect of dollar goods must depend on action taken within the dollar area. Professor

* Lord Brand, " A Banker's Reflections on some Economic Trends," *Economic Journal*, Vol. LXIII, December 1953, pp. 761–777.

Ludwig Erhard, the West German Minister for Economic Affairs, stressed the importance of the liberalisation of dollar imports and said that without it convertibility would be incomplete ; the degree of dollar liberalisation will, however, differ in various countries as necessarily the speed towards the freedom of currencies will show differences. According to the *Neue Zürcher Zeitung** the American delegation with Mr. Stassen as its head also favoured the elimination of all quantitative restrictions and the principle of non-discrimination which gave Bundesrat Petitpierre a welcome opportunity to refer to the contradiction of the policy pursued by the United States with regard to these principles.

The next group of problems discussed was connected with *payments* and *organisational* questions. The Ministers agreed that there must be adequate credit facilities available especially for countries with non-convertible currencies. This would prevent countries with " weaker " currencies from seeking their rescue in the return to bilateral agreements and a discriminating policy. A European Fund was suggested in this context but the Ministers apparently did not agree on this point. Mr. Butler sees the principal source of credit in the International Monetary Fund to which individual countries had to make their own approaches ; in addition there ought to be a European Fund based on the eventual surplus resources of E.P.U. when it is dissolved and which should amount to about $300 million and which would be built up by all members and made available to all members with short-term balance of payments difficulties. Estimates of the size of this build-up have varied from $500 million to $1,000 million. This basic plan was supported by Bundesrat Petitpierre who emphasised that Switzerland would oppose any plan which would reduce the multilateral compensation possibilities of the O.E.E.C. and thereby endanger the policy of non-discrimination. Professor Erhard, on the other hand, also favours a European Fund as long as it does not just carry on the work done by E.P.U. by granting automatic credit facilities. He would like this Fund to be comparatively small assisting only countries with non-convertible currencies having short-term balance of payments difficulties, whilst long-term credits should be arranged between lending and borrowing countries themselves.

All Ministers seemed to be in favour of keeping the O.E.E.C. in being after the introduction of convertibility but the necessity of this was stressed more by the representatives from the Continent. Germany's views on this subject are perhaps best expressed in a recent article† by Dr. Hans Karl von Mangoldt, the president and German member of E.P.U., who wants to examine the possibilities of maintaining the *spirit* of O.E.E.C. but get on as quickly as possible to G.A.T.T. and I.M.F.

Are we in any way nearer to convertibility ? The answer must be no. The success of these discussions seems to consist in the Ministers having agreed on certain policies to be pursued and action to be taken *after* convertibility has been secured. The initiative now lies with the United States and everything depends on their future attitude towards

* " Die Londoner Konferenz Über die Konvertibilität," *Neue Zürcher Zeitung*, July 19, 1954.

† Dr. Hans Karl von Mangoldt, " Die letzte stufe vor der Konvertierbarkeit," *Zeitschrift für das gesamte Kreditwesen*, July 15, 1954.

the essential good creditor policy. It is hoped that when the I.M.F. holds its annual meeting in September a clearer picture can be formed.

UNITED STATES AID TO THE UNITED KINGDOM

The Seventeenth Report on " Economic Co-operation " between the governments of the United Kingdom and the United States which was issued in July (Cmd. 9195) summarises the various titles under which American aid was received in the second half of 1953. Together with the previous report (Cmd. 9017) it is possible to determine the total aid received by this country during 1953.

(In $ million)	1st Half 1953	2nd Half 1953	Calendar Year 1953
Mutual Security Aid	127·2	110·3	237·5
Mutual Defence Assistance	44·9	21·4	66·3
U.S. Agricultural Surplus	—	6·8	6·8
Total Dollar Aid	172·1	138·5	310·6

Under the Mutual Security Programme, which accounts for more than three-quarters of all aid received, 71 per cent. of the dollars have been spent on raw materials (primarily metals), 12 per cent. on petroleum products, 8 per cent. on machinery and vehicles, 7 per cent. on food and 2 per cent. on shipping. On the other hand, of the aid received under the Mutual Defence Assistance Programme no less than 93 per cent. have been spent on the purchase of American machine tools for defence purposes. Moreover, in the autumn of 1953 the Americans provided funds to finance the purchase by friendly countries of surplus agricultural commodities produced in the United States. Payment is to be made by the recipients in their own currency. In the case of the United Kingdom the sterling proceeds up to the equivalent of $60 million will be used in the United Kingdom's defence budget and the equivalent of $5 million for colonial development. By the end of 1953 arrangements were completed for the United Kingdom to take consignments of lard, prunes, and tobacco under this Programme and about one-third of the tobacco surplus assigned to the United Kingdom had, in fact, been received.

In addition to the aid summarised in the above table, the United States government had placed " offshore orders " in this country amounting up to June, 1953, to a value of $450 million. These orders are for aircraft (Hunters and Seahawks), ammunition, electronic equipment, tanks, and minesweepers for allocation to N.A.T.O. countries, including the United Kingdom. Payment on these orders will be governed by the rate of progress in deliveries. By the end of 1953 deliveries had been affected and hence dollars had been received under this programme amounting to $50 million. Consequently the volume of outstanding orders (of about $400 million) can be expected to make a valuable contribution to the United Kingdom's balance of payments in the next one or two years.

August, 1954

GOLD INFLOW SLACKENS

THE sterling area's gold and dollar reserves have now surpassed the $3,000 million level. They increased by $32 million in June, bringing the total to $3,017 million. Compared with the May figure of $2,985 million, there has been an increase of 1·07 per cent. and the total reserves now amount to 78 per cent. of the last peak of $3,867 million in June, 1951. (See the table below).

There was a further fall in defence aid receipts from the United States which amounted to only $3 million in June, compared with $6 million in May and $28 million in June last year. Receipts from the European Payments Union in part settlement of the May surplus accounted for $15 million, leaving a balance of $14 million with countries outside the European Payments Union.

STERLING AREA'S GOLD AND DOLLAR RESERVES
ANALYSIS OF GOLD MOVEMENTS
(in $ million)

End of Period or Month	Gold Payments ( ) or Receipts ( ): Net Surplus or Deficit	of which: E.P.U. Settlement	of which: Balance with Rest of the World	Defence Aid	Change in Reserves	Reserves at End of Period or Month	% of last Peak of $3,867 million in June, 1951
1951							
1st half monthly average	71	– 7	64	23	94	3,867	100·0
2nd half monthly average	232	43	189	6	226	2,335*	60·4
1952							
1st half monthly average	141	– 59	82	37	97	1,685	43·6
2nd half monthly average	19	14	5	38	27	1,846*	47·7
1953							
1st half monthly average	59	23	36	25	87	2,367	61·2
3rd quarter monthly average	12	– 6	18	28	16	2,486	64·3
4th quarter monthly average	52	2	54	19	71	2,518*	65·1
1954							
1st quarter monthly average	36	2	34	20	56	2,685	69·4
2nd quarter monthly average	104	20	84	6	110	3,017	78·0
January	10	4	14	15	25	2,513	65·8
February	9	7	2	31	40	2,553	66·8
March	88	2	86	14	102	2,685	69·4
April	126	7	119	9	135	2,820	72·9
May	159	39	120	6	165	2,985	77·2
June	29	15	14	3	32	3,017	78·0

* After payment of $181 million on December 31 each year to service various North American loans; these items are not included under "Balance with Rest of the World."
† After payment of $39 million to Canada under new agreement for amortising 1942 loan.

These figures are far from giving an unfavourable picture. The total surplus in June was indeed the smallest since January, but it must be remembered that the large surpluses in March, April and May, totalling $402 million, were due to exceptional circumstances as described in our recent issues. At the end of April and the beginning of May, for instance, short-term funds were being transferred to London as a result of rumours that the margin of the sterling rate of $2·78—$2·82 was to be widened. Afterwards these rumours were officially denied. Neither this denial nor the subsequent

reduction in Bank rate have resulted in any substantial withdrawal of foreign funds. This can perhaps be regarded as a greater proof of the increasing strength of sterling than the inflow itself. Furthermore, a comparison of this year's June figures with those of last year shows that in 1953 only $8 million out of $46 million were earned in normal trading by the sterling area with countries outside Western Europe while in 1954 it amounted to $22 million out of $40 million if we take into consideration that in June the second quarterly instalment of $8 million on the Canadian interest-free loan had to be met. Receipts from the United States as defence aid, on the other hand, fell from $28 million in June, 1953, to only $3 million in June, 1954.

A comparison of the dollar surplus during the first half of 1953 ($521 million) with that of 1954 ($499 million) shows a slight decrease. However, this drop does not make the picture look less satisfactory, as defence aid receipts accounted for $167 million in 1953 as compared with only $78 million in 1954. On the other hand, the total net surplus (comprising E.P.U. settlements and balances with the rest of the world) increased from $354 million in 1953 to $421 million in 1954.

In view of the usual seasonal decline, no large surpluses can be expected in the months to come. On the contrary, a sharp deterioration will probably take place during July as Britain has agreed to pay about $100 million to E.P.U. which may result in a deficit of some $70 million. But even the maintenance of further small increases during the months after July would considerably strengthen the position of those who are in favour of an early establishment of sterling convertibility.

The United Kingdom had a small surplus with the European Payments Union in June of £3 million after allowing for £3 million interest on debt. This figure reflects a seasonal decline, with low commodity earnings, increased food imports and high tourist expenditure. This surplus will be settled during July as to 50 per cent. in gold or dollars, and 50 per cent. by reduction of the United Kingdom's debt to E.P.U.

FIRST QUARTER'S REVENUE

For what they are worth, the figures of national revenue and expenditure for the first quarter of the current financial year are satisfactory. Ordinary revenue to June 30 was some £7 million less than in the corresponding three months of 1953–54, while ordinary expenditure declined by £15 million, and the ordinary deficit, at £148 million, was thus about £8 million less than at June 30, 1953. While this reduction was due not to a rise in receipts from taxation but to a reduction in expenditure, it would be dangerous to assume from this that Government expenditure is being reduced. Experience has already shown that economy in Government expenditure is extremely hard to achieve on any considerable scale, and that when large cuts are made—as in the food subsidies—they are liable to be exceedingly unpopular. As far as defence outlays are concerned, the Chancellor of the Exchequer has already admitted that reductions may present more difficulty than was hoped earlier in the year.

The main improvement in the quarter's figures is caused by a decline in " capital " expenditure, the net below-the-line outlays being only £89 million, compared with

£120 million in the same period of the previous financial year, and with estimated net capital expenditure of £407 million for the whole of 1954–55. Loans to local authorities, with a drop from £102 million to £66 million, account for the whole of the past quarter's reduction. Reduced borrowing by local authorities may be due in part to a slackening of municipal house building activity, which has been reported in some areas, as well as to the recent tendency for local authorities to borrow on short-term mortgages instead of from the Public Works Loan Board.

Including below-the-line items, the overall deficit for the June quarter was £237 million, compared with £276 million in the April–June period last year. Receipts and expenditure for a single quarter are notoriously unreliable as indications of the course of the revenue balance for a complete financial year. The pattern of national finance has often been completely changed during the final three months, but it is something to the good that the current accounting period has started reasonably well, both in comparison with the Budget estimates for the full year and with experience a year ago.

FUNDING SCHEME SURPRISES

IN timing, character and achievement, last month's new debt funding scheme contained elements of surprise. It might have been expected that the Government would have rested on its laurels for a time after the successful conversion of the 3 per cent. National Defence Loan. Yet barely a month after this operation the authorities launched their proposals for dealing with the £535 million of $1\frac{3}{4}$ per cent. Serial Funding stock due for redemption on November 14. As an alternative to repayment, holders of this stock were given a choice between two new securities. They could exchange into Exchequer $2\frac{1}{2}$ per cent. stock 1963-64 and receive a cash payment of 10*s.* per cent. on doing so, or into Funding $3\frac{1}{2}$ per cent. 1999-2004 on the basis of £103 of this stock for every £100 of the Serial Funding stock surrendered.

There was nothing out of the common in the offer of a ten-year stock in exchange for the Serial Funding stock, but the alternative offer of a 50-year loan to holders of a stock which was known to be held mainly as a " short " was almost revolutionary by all recent standards. This part of the Government's offer was patently an experiment, designed to test the accuracy of the impression that an unsatisfied demand existed—on the part of pension funds, insurance companies, and other investors of the institutional type—for really long-dated Government securities.

Investors and the market drew the conclusion from the terms of the funding scheme that, in the official view, long-term yields are tending downwards, and they paid the authorities the compliment of grasping this concept wholeheartedly. Between the announcement of the offer and the closing date for conversions, prices for gilt-edged securities, and particularly those for long-dated and undated stocks, were marked up sharply, with an exceptionally large volume of business. A considerable part of this heavy turnover was believed to consist of sales of the $1\frac{3}{4}$ per cent. Serial Funding stock to new holders who required it for conversion purposes.

It is evident from the result of the offer that some of these buyers of Serial Funding converted it into the new 50-year loan. Of the £535 million of Serial Funding outstanding, £274 million was exchanged for the $2\frac{1}{2}$ per cent. Exchequer stock 1963-64 and £139 million into the $3\frac{1}{2}$ per cent. Funding stock. No doubt the bulk of the conversions into the latter were on behalf of the public departments, but the total converted into the new long-dated loan was much larger than had been expected, which suggests that a good deal of the conversions were made by non-official holders with the express purpose of acquiring a long-dated security.

The offer as a whole has been successful, since it leaves only £122 million of the Serial Funding loan to be paid off in November. The new $3\frac{1}{2}$ per cent. Funding stock acquired by official quarters will no doubt be disposed of, as opportunity offers, to seekers after a long-dated security giving a reasonably high return. Following the innovation of paying off the National Defence loan at practically its earliest date, the latest operation demonstrates that the policy of flexible money rates is to be accompanied by flexible Government loan tactics, designed to meet the particular requirements of investors at any given moment—always with the over-riding objective of lengthening Government loan maturities with a minimum increase of interest charges on the national debt.

BANKS' EXCHANGE COMMISSIONS

FROM July 19 a material change took place in the rates of commission charged by authorised banks on foreign exchange dealings carried out for account of customers. In place of the former scale of charges of $\frac{1}{8}$ per cent. on the first £20,000, $\frac{1}{16}$ per cent. on the next £80,000 and $\frac{1}{32}$ per cent. on amounts in excess of £100,000, a charge of $\frac{1}{8}$ per cent. on amounts between £100 and £5,000 will be made, but on amounts in excess of £5,000 only the maximum of £6. 5*s.*, representing $\frac{1}{8}$ per cent. on £5,000, will be charged. The small commissions levied on amounts under £100 remain unchanged. This concession is, of course, of great importance to the large commercial interests, including the film industry, and will be of considerable benefit to grain, cotton and other large markets. The small trader will no doubt feel aggrieved and Chambers of Commerce are already receiving protests. It might perhaps have been better to abolish all exchange commissions and to widen the dealing rates quoted by banks to customers to afford the necessary margin of profit. As it is, the small man still has to suffer the commission charge as well as the " dealer's turn " in the exchange rates.

WESTMINSTER BANK CAPITAL

SEVERAL of the leading British banks raised their interim dividends for 1954, but most of the changes had been foreshadowed in the final dividend announcements for 1953, and this robbed the current year's interims of any dramatic effect. An important exception to this rule was provided by the Westminster Bank which was one of the two banks among the " Big

Five " to pay the same dividend for 1953 as for previous years. The directors of the Westminster not only increased the dividend for the six months to June 30, but notified shareholders of a plan for re-organising the capital and made a forecast of the dividend for the second half of 1954.

Issued capital of the Westminster consists at present of £28,283,960 in £4 shares, of which £1 is paid up (giving a paid-up total of £7,070,990) and £2,249,167 in £1 stock units. Of the uncalled capital on the £4 shares, £1 is callable at any time and the remaining £2 only on a winding-up of the Bank. The £1 stock units are entitled to a maximum dividend of 12½ per cent., ranking with the £4 shares, and this maximum, of course, has always been paid. Subject to the approval of shareholders and stockholders, at meetings to be held in October, and to Court sanction, it is proposed to capitalise £1,767,747. 10*s*. of the reserve and with this sum to pay up a further 5*s*. of the uncalled capital on the shares, making them £1. 5*s*. paid. These shares are then to become " B " shares. At the same time, the £1 stock units are to become " A " stock, and will carry a non-cumulative preferential 12½ per cent. dividend ranking in priority to the " B " shares. The sum capitalised from reserves is to be replaced by the transfer of an equivalent amount to reserves from contingencies account.

The proposed changes will provide an additional safeguard to holders of the stock, while the paying up of 5*s*. of capital on the shares is a direct advantage to shareholders and should also make for a broader market in their holdings by reducing the uncalled liability. The scheme is fully justified, apart from other considerations, as a means of bringing the paid-up capital and reserves of the Westminster Bank a little more into line with its present greatly increased liabilities.

The Bank's dividend on the £4 shares, £1 paid, for the past half-year is raised from 9 per cent. to 10 per cent., or 2*s*. per share, and it is the present intention of the directors to pay a further 2*s*. by way of final dividend for 1954. This would be at the rate of 8 per cent. on the shares in their new form (with £1. 5*s*. paid-up) and would make 18 per cent. for the year. In terms of actual cash, of course, the return to shareholders will be 20 per cent. on the present amount of £1 paid up on the shares, compared with 18 per cent. paid for 1953.

JAPHETS CHANGES HANDS

FOLLOWING the death last February of its founder, Mr. Saemy Japhet (*The Bankers' Magazine*, March, page 216), the private banking house of S. Japhet and Co. Ltd. has joined the number of City firms whose capital has passed wholly or partially into the hands of larger undertakings. It was announced last month that the Charterhouse Industrial Development Co. had completed the purchase of over 90 per cent. of Japhet's share capital, the object of the purchase being to widen the scope of the services offered by the Charterhouse group of companies. The chairman of Charterhouse Industrial, Mr. H. Nutcombe

Hume, becomes chairman of Japhets, and Mr. E. Hamilton Owen, Charterhouse Industrial's managing director, has joined the board. The character of the business, however, will remain as before the acquisition.

The business of S. Japhet and Co. was founded in 1896, and was converted into a public company in December last. The issued capital is £1,300,000 in shares of £1 each, and deposits at the end of last year were over £2 million, while total assets were over £4·2 million. Charterhouse Industrial Development has an issued capital of £5 million, and the total of the last balance sheet was £5·9 million. The company's main objects are the provision of capital for smaller businesses, including funds which such businesses may require to meet estate duty.

THE STATUTE OF FRAUDS

It is almost with a touch of sadness that one sees an old examination acquaintance—Section 4 of the Statute of Frauds, 1677—almost entirely repealed by the Law Reform (Enforcement of Contracts) Act, 1954. The Statute of Frauds was passed to prevent frauds, though it has been said that it caused more frauds than it ever prevented. Section 4 provided that certain contracts should not be enforceable in law

> " unlesse the agreement upon which such action shall be brought or some memorandum or note thereof shall be in writeing and signed by the partie to be charged therewith or some other person thereunto by him lawfully authorised,"

the contracts being guarantees, agreements by an executor or administrator to answer damages out of his own estate, agreements in consideration of marriage, agreements for the sale or other disposition of land or any interest in land and agreements that were not to be performed within the space of one year from the making thereof. So far as agreements for the sale, etc., of land were concerned, this part of the section was repealed and re-enacted by Section 40 of the Law of Property Act, 1925, which remains in force. The whole of the rest of Section 4 is now repealed except for guarantees which will continue to be unenforceable unless in writing.

The Law Reform (Enforcement of Contracts) Act, 1954, also repeals Section 4 of the Sale of Goods Act, 1893, which itself repealed and re-enacted Section 17 of the Statute of Frauds. This section provided substantially that contracts for the sale of goods of £10 and upwards were unenforceable unless evidenced by writing, or unless certain other requirements were complied with.

Between them, the provisions now repealed have given rise to an enormous mass of litigation, and some fine distinctions have been drawn. For example, a general hiring of a servant which might or might not continue for more than a year was not within the Statute, whereas a hiring for a year which might be terminable at any time on six months' notice was within the Statute. With regard to the sale of goods, fine distinctions were drawn between contracts for the sale of goods, which required to be evidenced by writing, and contracts for work and service, which did not. For example, a contract to supply and fit a set of false teeth was held to be a sale of goods, while an agreement to paint a portrait was held to be a contract for work and service. Again there have been a large number of cases to decide what constitutes a sufficient memorandum which

would satisfy the section, and of recent years judges have exercised all their ingenuity in finding adequate memoranda so as to prevent otherwise good cases from failing on account of a mere technicality.

Certainly no business man or examination student will regret the substantial passing of the Statute, but the contracts lawyer may be forgiven if he she ls a private tear now and again.

THE MILNER HOLLAND REPORT

THE Report of Mr. E. Milner Holland, Q.C., who was appointed by the Board of Trade under Section 165(*b*) of the Companies Act, 1948, to investigate the affairs of the Savoy Hotel Ltd. and the Berkeley Hotel Company Ltd. has now been published. The facts of the complicated transaction whereby the control over the Berkeley Hotel was removed from the stockholders and transferred to the trustees of the Savoy Benevolent Fund are there set out with great clarity. As will be well remembered, the purpose of this transaction was to discourage certain interests who were endeavouring to acquire control of the Savoy Hotel Company with a view to making a profit out of the Berkeley Hotel by converting it from a hotel into show-rooms and offices. Mr. Milner Holland has found that in carrying out this transaction the directors of the Savoy company were not just trying to protect their own positions as directors, but were genuinely of the opinion that " on a long term view of the situation, and looking at the undertakings being carried on by the Savoy group as a whole, it was for the benefit of the Associated Companies and of the general body of stockholders of the Savoy Company, as the parent Company, that the business carried on upon the properties concerned should continue unchanged."

Nevertheless, the purpose of the transaction was, as Mr. Milner Holland found, " to remove and withhold from the majority holders of stock in the Savoy Company the power, indirectly and ultimately to determine the use to which the Berkeley Hotel should be put." Before proceeding with the scheme, the directors of the Savoy Company obtained the opinion of " a barrister of high standing and long experience in company matters " to the effect that the transaction was within the powers of the directors " so long as they acted *bona fide* in what they believed to be the best interests of the Company." Mr. Milner Holland does not find himself in agreement with this opinion, though he is careful to point out that his finding has no authoritative legal force. He finds that it is legitimate to look to the object or purpose behind an exercise of the directors' powers in order to determine its legal validity, once it is established that such exercise was *bona fide*. He does not, however, find that the purpose for which the Savoy directors exercised their powers was a purpose for which those powers were conferred upon them, however proper their motive was. The powers were conferred upon them for the purpose of managing the company's business, and while in the course of such management they had power to sell the company's assets out and out if they thought it expedient to do so, they should not exercise their powers merely to render irrevocable for all time the policy view of the present Board.

Much of our existing company legislation is directed to ensuring that the real control of a company's affairs lies with the stockholders and it is disturbing to find that

there is sufficient lack of certainty in the law for at least one leading counsel to find that it is quite legal in certain circumstances for directors to deprive their shareholders permanently of their control over part of the company's assets. There has been much discussion as to whether or not so-called " take-over " bids for the purpose of realising quick profits out of a company's assets are in the best interests of the community as a whole, but whatever the outcome of this discussion might be, it it to be hoped that it will not be allowed to obscure the paramount principle that in the last resort it is the shareholders and not the directors in whom the ultimate control of a company is vested. In view of the doubt that has arisen, it may be thought by those responsible that some legislation is necessary, though on the other hand legislation would not be easy to frame, and it might be better to leave the scope of the principle to be worked out by the courts as and when occasion arises.

AMENDMENTS TO LIMITATION PERIODS

The Law Reform (Limitation of Actions, &c.) Act, 1954, reduces the limitation period in the case of actions for personal injuries from the six years provided by the Limitation Act, 1939, to three years. Moreover, infancy is not in these cases to be a disability so as to stop the statute running unless it is shown that the infant was not in the custody of a parent at the time when the right of action accrued. The Public Authorities Protection Act, 1893, and Section 21 of the Limitation Act, 1939 (whereby a special limitation period of one year was imposed in the case of actions against public authorities), and certain analogous legislation, are repealed. Also, Section 3 of the Fatal Accidents Act, 1846, is amended to provide a limitation period of three years instead of one year. The result is that in all cases of actions for personal injuries the limitation period is three years, whoever the defendant may be, though the Maritime Conventions Act, 1911, still imposes a limitation period of two years in respect of loss of life or personal injuries suffered by any person on board a vessel caused by the fault of another vessel.

Section 1(3) of the Law Reform (Miscellaneous Provisions) Act, 1934, is also amended. This section provides for the survival of most causes of action against the estate of a deceased person, provided that the cause of action arose within the six months before the deceased's death. That six months' period is now abolished, with the result that the ordinary limitation period would apply, but the action must be commenced within six months after the grant of probate or letters of administration.

BULLION NOTES

The daily " fixed " price of gold has fluctuated but slightly within the close neighbourhood of 249*s.*; this is not to be interpreted, however, as meaning that interest has been on the wane for, in fact, turnover has continued in fair volume and the Continent has been only too ready to take advantage of the facilities afforded by the London market. Certain quantities of gold coins have continued to be made available for sale, but with demand not always keen the price of sovereigns eased at one time to around 68*s.* before recovering to 68*s.* 6*d.*; more buying interest has latterly been evinced for half-sovereigns and these have advanced to 30*s.* 6*d.*

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With sales of Russian silver having abated, the " fixed " price in London climbed gradually and reached 73⅛*d.* by June 22. Though it remained unchanged for a while and sales to essential users here were well up to average, the fact that Continental purchases were restricted left one to realise that the position was perforce uncertain and vulnerable. In the event, fresh offerings of Russian silver resulted in a relapse on July 9 to 72¾*d.* and a further decline of ½*d.* on the next working day ; hence, the price of 72¼*d.* recorded on July 12 was the same as that " fixed " on May 18 and was the lowest since the early days of January, 1951. With a degree of Continental buying being attracted, there was a minor recovery to 72½*d.* on July 13, but such improvement notwithstanding, it is currently difficult accurately to assess future price developments, these being largely dependent on whether Russian sales will be resumed and to what extent they can be absorbed. Despite the approach of the holiday season, activity in the New York market has been well maintained at the unchanged price of 85¼ cents. Reports have been current that a Central American country has purchased some 2 million ounces silver for minting into coinage at Philadelphia.

Business in platinum and palladium has been effected below £29 and £7 respectively. Though London itself has not witnessed heavy selling, buyers have been reluctant seeing that as a result of Continental offerings prices in New York have tended further to recede.

THE MIDDLE CLASSES

A TIMELY essay by Honor Croome in *Lloyds Bank Review* takes stock of the reverses of fortune which have beset " that group whose abilities society, at the moment, most needs," *i.e.*, the middle class, " the professionals, the managers, the administrators." Largely as a result in the comparative fall in the real incomes of this group, Mrs. Croome sees considerable cause for doubt and disquiet. " Once income sinks below the critical magnitude which permits genuine and creative leisure, no skilful rearrangement of the remaining components of the standard of living can preserve its middle-class quality ". It is that very quality which Mrs. Croome feels is needed to-day. The modern economy, the Welfare State itself, " depends upon a growing supply of men and women, possessing, and capable of retaining throughout their working lives, the qualities of high intelligence, inventive imagination, integrity, initiative, co-operative leadership. They must possess the ability to link the particular with the general, to interpret their own activities and—a point more and more important as special expertise increases—to relate them continuously to wider human purposes. These urgently and increasingly needed qualities far transcend those of the superior white-collared technician ; and it is blindly unrealistic to pretend that they are generally fostered by the superior white-collared technician's way of life ".

EQUAL PAY

THERE are some who would like to see the law compel employers to pay the same salaries, without sex discrimination, to all employees —in other words " equal pay for equal work." In banking we have few experiences to go on. France has such legislation and the effect appears to be that the French banks have cut down considerably their recruitment of women. The French

find that there is a higher rate of absenteeism amongst women workers, and this is combined with the feeling that women do not normally accept responsibility as readily as men, nor do they have, in fact, the same incentives in the matter of making banking their career. In Mexico there is a Federal Labour Law obliging employers to pay equal wages regardless of sex and nationality. Banks have regard to sex, however, when filling specific posts. Managements have found that women are most suited as clerks, secretaries and cashiers. On the other hand few of the specialised departments appoint women to technical jobs, as they do not seem to have the training for this kind of work. Managerial and other higher positions are not offered to women. It has not been the custom for Mexican women to take courses of technical education, and the shortage of women with that kind of background doubtless accounts for the attitude of the banks.

Overseas Notes and Comments

DANISH TROUBLES

EARLY in July the Prime Minister of Denmark announced various measures to mitigate the big deterioration in the country's foreign payments position. The net foreign exchange balances of the Danish banks fell from DKr.340 million in September, 1953, to DKr.90 million last April, and the situation worsened so much after that time that the mid-July figure was much lower. Cuts are to be made in the military budget but we gather that no new taxes or customs increases are proposed.

The rise in the Danish bank rate on June 22 from 4½ per cent. to 5½ per cent. (the highest since 1939) was a clear warning that the authorities were convinced that matters had become serious. The diminution in the exchange holding is due not only to heavy imports but also, it seems, to large pre-payments. We ourselves believe that the position will be rectified during the coming months provided the terms of trade cease moving in an unfavourable direction, but an early reversal of the recent unfavourable trend—in butter prices, for example—is by no means certain.

The present situation is one that Denmark's E.P.U. partners cannot regard with equanimity for Danish indebtedness to the Union is already over Kr.820 million. Britain is also closely interested because of the great importance of Anglo-Danish trade, which in 1953 totalled £208 million, of which £80 million was represented by British exports and re-exports. It is still unknown how Danish exports will be affected by the freeing of our agricultural trade; that New Zealand alone is a larger seller of meat to Britain is merely one indication of how important our market is to the Danes. On the other side of the account, there is the fact that, of non-Commonwealth countries, Sweden alone makes bigger purchases from Britain than does Denmark.

TRANSPORT WITHIN THE COMMUNITY

THE European Community for Coal and Steel is a bold attempt to create a common market within the six member countries. One of the biggest problems has been that of ironing out the differences in transport rates. How heavily the cost of carriage of raw materials contributes to the

final cost of a manufactured article must depend a good deal on the quantity and kind of material used, but it has been estimated that, in Western Europe, an engineering works' bill for coal, iron ore, scrap and steel may have a transport costs content of 20 per cent. Part of this burden arises from the fact that every time a ton of coal or other goods crosses a frontier the rates for carriage go up. The High Authority of the Community estimates that the crossed-frontier factor adds as much as 25 per cent. to transport costs. Nearly two years ago the Community set up a transport commission to examine these uneconomic distortions, and last May it recommended that all inequalities of treatment for international traffic be brought to an end by March, 1955, at the latest. This decision has been recommended to the member states and, if *they* do not act, the High Authority will.

The effects will be great. For example, the ton price of Ruhr coal in Paris should fall by £1, 40 per cent. will come off the cost of transporting Ruhr coal and coke to the steel plants of Luxemburg and Lorraine, and finished steel will move much more cheaply from France to Germany. The Italian steel industry, depending as it does on long-haul scrap, will benefit appreciably.

This development is one that closely concerns many British producers, particularly the manufacturers of steel and the large users of steel. In a year from now, even if all other factors remain unchanged, price competition from factories and works in the Community will be more intense than at present. It is impossible to give any figure that will cover every kind of manufacture but an average fall of 2 per cent. in the cost of steel is among the estimated reductions, and is one that will set in motion a downward pressure over a wide field.

SPANISH STERLING FOR RIO TINTO

EVERY year, when representatives of the Treasury and the Board of Trade negotiate with the Spaniards a renewal of the Anglo-Spanish trade agreement, the public is given to understand that Spain suffers from an acute shortage of sterling and therefore cannot be expected to buy from Britain any but the barest essentials. And every year the U.K. Trade and Navigation returns show a large balance in Spain's favour: the figures of our trade with the peseta area during 1953 represent fairly the trend for several years past:—

	£ million
Imports into U.K.	39·3
Exports and re-exports from U.K.	26·1

If the imports are reduced to an f.o.b. basis, this leaves Spain a surplus of some £10 million, which is considerably smaller than the balance in some earlier periods. Enquirers are told that service remittances and purchases of necessary raw materials from the rest of the Sterling Area fully absorb these favourable balances but as no supporting figures are produced British exporters of "non-essentials" have never accepted the statement. The scepticism of these doubting Thomases will have been reinforced by the news, early in July, of the acquisition by a Spanish group of a two-thirds interest in the Spanish assets of the Rio Tinto Company in consideration of a sum of £7,666,666 in sterling, payable as to £2,500,000 at latest by the end of

October, with most of the balance in instalments over the next three years and a smaller balance payable during the three years after that.

In view of what *The Times* describes as " the rigorous official provisions for prices, wages, and social security payments which have effectively destroyed the property's natural profit-earning power " the terms concluded do not seem unfavourable to the shareholders of the Rio Tinto Company. But they also provide evidence that there is some sterling in the Spanish kitty after all the annual protestations.

Quite apart from this aspect, however, there is a serious objection to the Rio Tinto deal in that it is one more example of a country unable to allow the full servicing of its existing foreign obligations which can nevertheless find the exchange to buy out an enterprise whose value has been previously diminished by the buyer's own actions. The post-war years have familiarised us with this kind of expropriation by the Argentine but the experience does not grow pleasanter merely by being repeated nearer home.

EGYPT'S STERLING

WHEN Egypt decided to come out of the sterling area in July, 1947, she concluded a temporary arrangement with Britain whereby Egyptian banks' balances in London were divided between No. 1 (free) and No. 2 (blocked) accounts. At that time the sterling assets affected amounted to about £400 million.

From then on fresh agreements were made periodically, all of them providing for a small part of the blocked money to be transferred to free account. In March, 1951, the parties concluded the ten-year agreement that still governs their trading relations. Under this pact the United Kingdom made an immediate release of £25 million and promised to facilitate the supply of oil products against sterling up to £11 million a year for 10 years. It was also agreed that at some time in each calendar year the United Kingdom would release £10 million of the blocked balance and a further £5 million in any year when the balance of free account money fell below £45 million. This second class of relief has in fact been needed every year since the agreement was signed, the most recent transfer having been made last January. The larger annual release—that of £10 million—was held back this year until after the end of June, and the delay has popularly been connected with the diplomatic struggle that is going on regarding the custody of the Suez Canal. If this was indeed why the money was being held back, we have here yet another instance of cutting off your nose to spite your face. A year ago Egypt's foreign currency position was very bad, but by December 31 last—according to the Foreign Minister—her free sterling stood at £18 million and her dollar reserve at $23 million. These are not big sums but they were quite sufficient for Egypt's immediate requirements, having regard to the improvement that has been taking place in her balance of payments over the past twelve months. As it is, the belated release may encourage Egypt to step up her purchases of British goods.

In 1951—admittedly a boom year—Egypt's sales to Britain amounted to £47½ million and her purchases to £41¼ million. The following year our imports were down

to less than £13 million and our sales to £33 million. In 1953 our imports increased slightly but our exports fell to about £21 million. The figures for the first five months of the present year show our imports at more than double the comparable figure for 1953 and our exports up from £8·4 million to £10·3 million. This revival should receive impetus from the funds thus released, and the higher level of trade exchanges may do something to facilitate a reasonable settlement of the Canal dispute.

THE WORLD BANK AND ISRAEL

On July 12 the International Bank for Reconstruction and Development announced two interesting decisions. One was that an issue of its bonds was to be made immediately in the Netherlands. This, the first guilder issue by the I.B.R.D., was for Fls.40 million at 3½ per cent. and was underwritten by a syndicate of Dutch banks for issue at par.

The other decision was to receive Israel as a member of the I.M.F. and the I.B.R.D. The quota of Israel in the I.M.F. is \$4.5 million and a like sum is being subscribed to the capital stock of the I.B.R.D. This step has come at a time when Israel seems at last to be overcoming the worst of the difficulties with which she has been faced since the cease-fire of January, 1949, in the Arab-Jewish war. 1953 was the first year in which no new foreign short-term debts were incurred, and the trade deficit fell from \$264 million in 1952 to \$227 million. In 1951 this deficit amounted to \$342 million and it is no accident that the improvement in the balance of trade has occurred simultaneously with a fall in the rate of immigration. The foreign currency holdings, almost exhausted a year ago, have risen quite respectably during the first half of the present year but they are still small—about £18 million—and the country is still unhealthily dependent on appeals to the charity of Jews in America. Last year, for instance, foreign currency expenditure came to \$338 million against earned receipts of \$76 million. The shortage was made good partly by a \$46 million grant from the U.S. Government and partly by \$42 million German reparations, and, as to the balance, mainly by gifts.

Exports during the first quarter of the present year were running about a fifth higher than in the same months of 1953 but the figures we have given demonstrate that Israel must have an expenditure-earned receipts deficit for a long time. Meantime, there is the ceaseless threat of a renewal of the Arab war, a threat that forces Israel to spend heavily for defence at a time when her entire resources should be devoted to works of peaceful development.

AUSTRALIA 1953 54

The financial year that ended on June 30 last was one of the most prosperous in the history of Australia. The Commonwealth budget showed a surplus of £A56 million, against the original estimate of £A215,000, as a result of a big increase in revenue and a fairly large shortfall in expenditure—and this went along with tax cuts amounting to £A118 million in a full year.

Trade has been good, with a wool cheque of £A390 million, the third highest on record. The high export income has made possible a further relaxation of the drastic import controls instituted in March, 1952. What this means to Britain may be illustrated by the fact that U.K. exports and re-exports to Australia for the first five months of 1953 totalled £75 million, while for the same months this year the figure was £113 million. As the statistical position of wool is favourable to producers, 1954–55 should also prove a good year, but British exporters, while making every effort to meet the large current demand, will be wise to remember how volatile the Australian market has shown itself in the past.

GUATEMALA

A COLOURFUL, almost storybook, revolution has recently brought the small Republic of Guatemala into the headlines. The exact causes of the upheaval are not entirely clear; it was certainly not a case of good and evil, of Democracy versus Communism, as certain commentators either side of the Iron Curtain have proclaimed. Opposing ideologies probably exerted some influence, but local politics with all the personal ambition and greed that characterise them in Central America certainly played an important part.

Jacobo Arbenz was elected President in 1950. The leader of the rebellion, Colonel Castillo Armas, was arrested in the same year after being involved in an unsuccessful revolt, but the following year escaped from prison and started organising opposition forces outside Guatemala. On June 18, 1954, he led an assorted force across the border from Honduras and, after some vicissitudes of fortune, entered Guatemala City in triumph on July 3. A military Junta, it is claimed, will rule the country until conditions are sufficiently tranquil for elections to be held.

These events are unlikely to affect the way of life of the Republic's 2,900,000 inhabitants. The majority of them live in abject poverty on a staple diet of corn and black beans. Guatemala is, of course, predominantly an agricultural country and coffee is the main export. It is mostly of a fine quality and earns about three-quarters of the total export income, the bulk of it being purchased by the United States. Bananas, the second export crop, have decreased in importance since 1948 owing largely to damage by hurricanes, to labour difficulties and to the Government's land policy. In 1953 they contributed only 14 per cent. of the foreign earnings, rather more than in recent years, but just under half the contribution they made in 1948. There is undoubtedly great scope for agricultural expansion—a fall in coffee prices would hit the economy hard—and this is a task the new rulers should put high on their list of priorities.

With the general lack of confidence in the future, business in Guatemala has inevitably been slack recently. Thanks, however, to high coffee prices the external stability of the country has been well maintained. A favourable trade balance was achieved in 1953 for the second year in succession and the March figures—the latest available—of the Bank of Guatemala's holdings of gold and foreign exchange at just over U.S. $52 million is only $500,000 lower than in March last year. The reserves are sufficient to cover eight months' imports, a comfortable margin. Internally, although the money supply has been increasing somewhat, the quetzale is at par with the dollar and a recent official announcement stated categorically that there was " absolutely no intention or reason " to change it. The Junta have taken over a going concern.

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German Banking

THIS issue of *The Bankers' Magazine* contains three articles covering a wide field in German banking and finance. Since the major part of comparative banking literature has, in the past, stressed the differences between British and German banking, it is as well that we have these re-appraisements, which show the tendency towards similarities rather than differences. Before the first world-War it was true that the German banks operated as *banques d'affaires* rather than as deposit banks. In 1913 for example, the own resources of capital and reserves of the great German banks amounted to 32 per cent. of their balance sheet totals. By 1936 this had fallen to 8 per cent., and to-day it is somewhat lower than this. The " big Five " in England found their counterpart in the " big Three " in Germany, each with widespread branch networks over the country. The disintegration of these banks to which Dr. Panten refers was brought about as a natural consequence of the Potsdam agreement which deprecated (and prohibited) " the excessive concentrations of economic powers ". Subsequent re-forming into the present nine institutions which Dr. Panten mentions was largely due to the initiative of Messrs. Herman J. Abs, Carl Goetz and Paul Marx whose Memorandum to the three Allies responsible for the Western Zones of Germany formed the basis of ultimate re-grouping at Land level.

As our readers will observe, there are now nine banks in fact, but only three in spirit. The peculiar difficulties of the capital market in Germany to-day have forced the banks to recognise that they must depend upon deposits rather than increasing their own capital structure if they are to build up funds for their operations; and that they must be prepared to assist industry somewhat more deeply than they would otherwise care to do. In fact, each group of three existing banks will adopt a common policy, leaving the customer with three (and not nine) competing banks. Since, however, the inherent difficulties are common to all banks, there will as likely as not be only one answer to any particular proposition, and to go from one bank to another will scarcely help the customer.

Historically, the banks in Germany assisted industry by taking an active part in a new enterprise from its beginning. They appointed officers to the boards of companies, and nursed these firms through the teething stages. When the time was ripe, capital was raised in the long-term market, and the bank advances re-paid. Of recent years the trend has been against such financing. Since the War there has been established a Reconstruction Loan Corporation, charged with this particular function, and the banks had hoped to divest themselves of their former activities as *banques d'affaires*. That they have had to return, in a small measure, to this traditional rôle, has not pleased them, for they were developing the deposit bank so familiar to us in England, on a nation-wide basis.

Aside from this enforced distinction between German and British " Head Office " policy, the banking system internally was not altogether different from what we know in England. There is the same use of cheques and transfers and clearings, and even overdrafts. American experts in the Control Commission found more differences between the German and their own banking system than did the British, for in America the overdraft is not common—is in some States not permitted—and there are few branch-banking chains as there are in England and Germany. Clerks who interchange between

British and German banks do not find the broad lines of operation and system very strange. The German has a more scientific approach to costing problems, and will exchange information with rival institutions in order to check his answers. He makes more use of gadgets and machines. He works longer hours. He is amenable to State direction on the form of his balance sheet, and does not object to outside inspections and controls. But he encourages the use of cheques ; his book-keeping approximates to ours, and he uses familiar types of machines for ledger posting ; he has the same " Head Office ledger " in the branches, with much the same headings ; and in the large cities sets up a luncheon club-room for those who cannot reach their homes for the mid-day meal.

Before the War, the Reichsbank was in some respects a competitor of the other banks, by virtue of its branch network—of over 400 branches—engaged in transactions which competed in many ways with the commercial banks. In addition it was a true Central Bank, with the right of note-issue, and with re-discount facilities. After the War it was closed down ; a new bank of issue was established, the Bank deutscher Länder, which has no branch network to drain away business from the commercial banks. Except for the necessities of the Federal structure of Western Germany, one more step towards the British system has been taken.

The demands for capital from an expanding German industry call for very high qualities amongst bankers. Unhappily, there is a broad personnel " gap " between the very old and experienced bankers, and the new entrants to banking. The supply of younger men with a background of say, 20 years experience of free banking is sadly lacking, since at the beginning of their career such young men would have spent their earlier years in the grip of the nonsense of Nazi economics and exchange restrictions, calling over ledgers in which there was not just one Mark, but a monstrous variety of Marks of all categories, and checking over loan accounts which were not necessarily established for sound banking reasons. With a typical thoroughness this situation is being remedied rapidly, and the high proportion of German banking students in London and New York is witness to the determination that the study of banking in all its branches is to receive high priority. As in all things, there is one sure way to progress and this holds true for banking. One must work. German success is due to the recognition of this fact.

The Growth and Activity of the West German Successor Banks*

By Hans-Joachim Panten

IN many respects the balance sheet figures of the nine large banks with branch systems which have been formed as successors of the former " big Three " German banks the Deutsche Bank, the Dresdner Bank and the Commerzbank, reflect the business results and policy of all the commercial banks in Western Germany. The names of the nine successor institutions, all of which are limited companies in " A.G." form, are as follows :—

	Successors of the	
Deutsche Bank	*Dresdner Bank*	*Commerzbank*
Norddeutsche Bank	Hamburger Kreditbank	Commerz-und Disconto-Bank
Rheinisch-Westfälische Bank	Rhein-Ruhr Bank	Bankverein Westdeutschland
Süddeutsche Bank	Rhein-Main Bank	Commerz-und Credit-Bank

They account for 53 per cent. of the balance sheet total of all the commercial banks. They also have 57 per cent. of the latter's deposits, and their proportion of the total short-term lendings is almost as high. They are even more representative in their capacity as Foreign Trade Banks, since about two-thirds of all the short-term credits in respect of imports and exports are granted by them. One of the most important and most rewarding tasks of the successor banks continues to be the maintenance of foreign relations, not only with a view to supporting German trade and industry in their efforts to export, but quite as much for the purpose of making the German market as receptive of foreign goods as possible. One result of these efforts has been a considerable rise, especially during the past year, in the number of DM accounts of foreign banks kept at the successor institutions, as well as in the number of accounts in foreign currency kept by these latter at banks outside Germany. A further contribution towards consolidating foreign relations, more particularly those with correspondent banks in Great Britain and the U.S.A., was made by the settlement of Standstill credits within the framework of the London Debts Agreement.

The successor banks have been nine in number only since the beginning of 1952, as a result of the Law on the Regional Scope of Credit Institutions dating from March 31 in that year. Up till then the governing ordinances were those enacted by the occupying powers, under which the " big Three " pre-war banks had been split up into 30 separate institutions. That fragmentation not only dealt a heavy blow to the banking system, but in addition hindered the reconstruction of the West German economy. It meant that precisely in the period during which an efficient banking system might have eased the stony and painful way to recovery, there simply was no naturally developed banking

* See also the article " German Banking since the War " (*The Bankers' Magazine*, November 1952).—ED.

organisation such as that of the former big banks. These after all did suit the needs of the German economy, and had proved their excellent value through many decades.

The banking year 1953 is the second since the new arrangement by which the decentralisation was to some extent reversed, when the 30 fragmentary institutions were made into nine independent successor banks in the form of companies limited by shares. To judge by the criterion of balance sheet totals the group of the Deutsche Bank successors is the strongest, with 47 per cent. of the grand total, being followed by the successors of the Dresdner Bank with 32 per cent. and those of the Commerzbank with 21 per cent.

These nine institutions have a number of common problems, originating from the "decartelisation" from which they jointly suffered, as well as from the consequences of the war and the currency reform. One of the most serious of these problems is the low rate of capital formation. It is, of course, an international feature that banks cannot increase their capital resources as fast as their balance sheet totals expand. Ever since the beginning of this century the banks' capital basis has been growing more slowly than their total liabilities. In this respect, however, the war and its consequences, coupled with the fate meted out to the big banks in Germany, have given rise to a particularly unsatisfactory position. As will be seen from the table below, the

TABLE I

Bank	Ratio of "Debtors" other than Credit Institutions to Customers' Deposits		Long-term Lendings to Monies taken at Long Term		Sight Deposits to Total Deposits		Capital and Reserves to Balance Sheet Total	
	In per cent.							
	1952	1953	1952	1953	1952	1953	1952	1953
Norddeutsche Bank	59·3	70·5	125·8	127·0	58·4	50·3	4·1	3·6
Rheinisch Westfalische Bank	59·8	53·9	110·9	135·0	54·3	48·8	3·8	3·3
Suddeutsche Bank	61·8	62·1	121·0	109·8	52·6	49·3	3·9	3·4
Hamburger Kreditbank	49·2	58·4	109·0	129·0	47·4	45·5	4·8	4·3
Rhein Ruhr Bank	48·8	52·1	133·8	130·6	48·9	47·9	4·4	4·0
Rhein-Main Bank	53·8	56·2	111·1	114·2	50·0	51·7	4·5	4·0
Commerz-und Disconto Bank	74·2	70·4	97·8	160·5	50·8	39·8	4·3	3·7
Bankverein Westdeutschland	57·2	59·7	141·5	186·0	48·0	42·1	3·5	3·6
Commerz-und Credit Bank	58·2	49·8	154·2	175·2	47·8	34·7	4·2	3·1

present ratio of the nine successor institutions' capital resources to their balance sheet total lies between 3·1 per cent. and 4·3 per cent. This admittedly makes it higher than the ratios of the large British banks, but lower than those in Switzerland or the United States. It is, of course, also lower than the ratios of the big German banks before the war, since the corresponding ratio in 1937 was 4·8 per cent. at the Deutsche Bank, 6·8 per cent. at the Dresdner Bank and 6·2 per cent. at the Commerzbank. Last year, moreover, the balance sheet totals greatly expanded, the largest increase being that of over 42 per cent. at the Commerz-und Credit-Bank as the table of the balance sheets of successors of The Commerzbank shows; and this has brought nearly all the ratios down below their 1952 level. The only exception to this is the Bankverein Westdeutschland, which last year increased its capital. The increase, however, did not take the form of an issue of shares, but merely of an exchange of shares with another bank. It

will not be until later that the new capital will be offered to the old shareholders for subscription. The time when it will be so offered is as yet not known. It depends on the course of the capital markets, a matter discussed elsewhere in this number, because it is the functional deficiencies of these which make the placing of bank shares difficult. It should, however, be emphasised that the banks are deliberately refraining from issuing shares in the capital market, because they do not want to do what the public authorities have been doing and simply skim the cream off that market. A General Manager of one of the nine banks at this year's General Meeting explained their attitude by pointing out that the German capital market is not an orange tree from which one can gather ripe fruit at any time of year. On the contrary, he said, it remains a tender plant needing the care and protection of gardeners; these latter include the banks, who, however, are far from satisfied with the Government as head gardener.

As gardeners, the banks know how the capital market ought to be cultivated. One should not make excessive demands on it, but should leave the way clear for issuers in other branches of activity who have an even more urgent need for strengthening their capital basis. The time for reinforcing the capital resources of the banks has not yet come. It is true, feelers are now being sent out to test the capital market in view of the favourable tendency on the stock exchanges. The Commerz-und Credit-Bank is going to increase its capital by DM. 5 million. However, one of the most important tasks of the banks continues to be the enlargement of their published and undisclosed reserves, so that they may be in a position to meet the demands which German trade and industry make on them. Of course the strengthening of published reserves, although the banks last year carried it out to the greatest feasible extent, can never lead to expanding the capital funds to anything like the extent to which they could and should be expanded by issues of shares. In 1953 the successors of the Deutsche Bank allocated DM 10 million to their reserve funds from the profit and loss account while the Commerz Bank allocated DM 4 million in this way. The Dresdner Bank group applied a sum of DM 10.5 million to reserves before it reached the profit and loss account, so that the balance of profit was smaller by that amount. This is a kind of balance sheet technique which was used by the successors of both the Dresdner and the Deutsche Bank in the previous year, and which illustrates the possibilities open to the banks in the handling of their balance sheets. The ratio of the reserve allocation in the case of the Deutsche, Commerzbank and Dresdner groups was 10 per cent., 6·3 per cent. and 11·3 per cent. respectively; and the published reserves were thereby brought up to 85 per cent., 42 per cent. and 61 per cent. of the capital.

A further feature common to all nine of the banks is the way in which the time deposits, which are relatively "expensive" from the point of view of earning power, increased more than the "cheaper" sight deposits did. In point of fact this happened not only among the successor banks but among banks as a whole. One reason is that the velocity of circulation of money has been constantly declining in Western Germany since the Korean crisis, or in other words that the propensity of the economy other than the banks to hold more cash has steadily grown stronger. Another factor which has

TABLE II

Banks	Increase of Time Deposits in 1953	Ratio of Time Deposits to Total Deposits of Customers 1952	1953	Ratio of Sight Deposits to Total Deposits of Customers 1952	1953
	in per cent.				
Deutsche Bank Group	33·6	37·0	39·9	54·3	49·3
Norddeutsche Bank	36·7	32·9	37·8	58·4	50·3
Rheinisch-Westfalische Bank	36·3	36·5	39·7	54·3	48·8
Suddeutsche Bank	29·7	39·5	41·0	52·6	49·3
Dresdner Bank Group	15·2	44·5	42·7	48·9	48·8
Hamburger Kreditbank	16·5	47·0	42·2	47·4	45·5
Rhein-Ruhr Bank	19·6	44·6	43·7	48·2	47·9
Rhein-Main Bank	10·5	42·9	39·2	50·0	51·7
Commerzbank Group	53·8	44·0	51·3	55·0	40·0
Commerz-und Disconto-Bank	55·7	39·9	48·9	50·8	39·8
Bankverein Westdeutschland	41·5	45·1	49·5	48·0	42·1
Commerz-und Credit-Bank	89·6	45·4	58·3	47·8	34·7

largely influenced the composition of the deposits' structure has been the unsatisfactory capital market policy ; while mention must finally be made of the secondary effect produced by the accumulation of public monies on time deposit accounts at other banks. The smallest rise in time deposits occurred in the successors of the Dresdner Bank, and the largest in those of the Commerzbank. In these latter institutions not only is the proportion of time deposits to total deposits the highest, but the time deposits have actually come to exceed the volume of sight deposits.

Another consequence of the present plight of the capital market is that the balance sheets of banks have not yet regained their normal elasticity. When the capital market is working normally, short-term advances which are granted for the preliminary or interim financing of long-term projects will one day be replaced by a long-term loan, which will not be granted by the commercial banks but will be procured through the capital market by the issue of bonds or shares. Nowadays, however, the possibility of such issues is still greatly restricted. That is why one finds it said in the annual reports, and in statements made at the General Meetings, that the banks' lendings to trade and industry no longer serve, as formerly, simply to finance movement of goods and the like, but are used to supplement the borrowers' insufficient working resources. Trading and industrial firms are, in fact, like the banks showing a progressive fall in the ratio of their capital resources to their borrowed funds. This is mainly a result of the stiff taxation, which makes the formation of fresh capital difficult. The banks are obliged to make allowance for this state of affairs because, if they were to call in advances of this kind, this would in many cases cause an abrupt restriction of business in the firms concerned, with all the economic and social consequences which that would entail. The result has been that some of the advances in question have in effect become participations, while the risk of lending is increased for the banks accordingly. If one may generalise a statement that was made with regard to one of the successor groups, one might estimate that 30 per cent. of the short-term lendings are ripe for consolidation through the issues of securities.

As can be seen from the table below, there has been much divergence as between the individual banks in the movement of the item " debtors ", representing advances and

other short-term lendings. While the rate of increase in that item in the Rheinisch-Westfälische Bank and the Bankverein Westdeutschland has become notably slower as compared with 1952, the increase was considerably larger in all the successors of the Dresdner Bank. It would also appear from the results shown that the North German successors of all three big banks attached especial importance to increasing this item.

The long-term lendings, which properly speaking are not very suitable as items in the balance sheet of a commercial bank, and which have grown only because of the inadequacy of the capital market, did so in exceptionally large measure with the successors of the Commerzbank. If one compares the figures for loans granted at long term with those for loans taken at similar periods, one finds that in most of the successor banks such lendings have grown faster than the loans taken. That process has occurred in the most marked degree in the successors of the Commerzbank, while on the other hand the Rheinisch-Westfälische Bank, the Süddeutsche Bank and the Rhein-Ruhr Bank have been able to reduce the lead which their long-term lendings had in this respect.

As a result of the measures which have been in force since December, 1952, with a view to encouraging the capital market by granting fiscal concessions in connection with

TABLE III

Bank	Increase of							
	Balance Sheet Total		" Debtors "		Bills		Securities	
	In per cent.							
	1952	1953	1952	1953	1952	1953	1952	1953
Norddeutsche Bank	14·6	19·6	13·8	28·2	46·9	16·1	10·4	323·0
Rheinisch-Westfälische Bank	19·3	21·2	20·6	10·9	70·3	27·9	35·5	114·4
Süddeutsche Bank	22·0	21·3	14·1	11·5	98·1	41·3	31·7	195·0
Hamburger Kreditbank	11·0	18·8	1·4	35·8	14·5	25·3	10·4	203·2
Rhein-Ruhr Bank	23·1	16·6	11·2	19·9	63·5	11·4	22·2	133·5
Rhein-Main Bank	29·0	20·9	14·0	24·5	122·3	15·3	19·6	62·2
Commerz und Disconto Bank	5·4	26·3	5·5	18·7	5·9	36·8	16·7	91·7
Bankverein Westdeutschland	29·0	29·9	36·4	29·0	39·2	55·1	20·1	51·7
Commerz- und Credit Bank	19·0	42·5	11·3	23·1	47·1	60·4	9·0	72·7

fixed interest-bearing securities, the banks' security holdings have been substantially enlarged. It is true that the balance sheets do not show separately the amount of the tax-free securities and those carrying tax concessions. Since however the issues made last year consisted mainly of loans falling within the terms of the Capital Market Encouragement Law, it would seem likely that the securities added to the banks' portfolios mostly came from such issues. The effect is to improve not only the banks' earning power, but also their liquidity. That is a rare combination in any kind of business, since liquidity and earning power are apt to be incompatible opposites. This makes it all the more remarkable that the Commerzbank group made only comparatively slight use of the opportunities offered in this way. None of the Commerzbank successors doubled its security holding, whereas the remaining successors other than the Rhein-Main Bank show a much larger increase even than that.

There is one type of security in the balance sheets of the banks which was not known before the war. It appears under the description " Equalisation Claims ". These are claims on the Government in the shape of registered book debt, for which no documents of title in security form are issued. They originated from the currency reform, which

TABLE IV

PROFIT AND LOSS ACCOUNTS, 1953
(In DM million)

Bank	Expenditure				Receipts	
					of which	
	Taxes	Dividends	Other Items	Total	Interest	Commissions and Fees
Norddeutsche Bank	13·3	1·7	30·9	45·9	16·6	29·3
Rheinisch-Westfalische Bank	37·0	3·4	59·5	99·9	37·1	62·8
Suddeutsche Bank	29·4	3·4	62·4	95·2	36·3	58·9
Total	79·7	8·5	152·8	241·0	90·0	151·0
Hamburger Kreditbank	4·4	1·8	22·7	28·9	12·6	16·3
Rhein-Ruhr Bank	10·3	3·1	31·1	44·5	16·8	27·7
Rhein-Main Bank	7·6	3·1	41·5	52·2	21·3	30·9
Total	22·3	8·0	95·3	125·6	50·7	74·9
Commerz-und Disconto-Bank	4·3	1·1	20·2	25·6	11·1	14·5
Bankverein Westdeutschland	15·1	2·3	36·8	54·2	23·3	30·9
Commerz-und Credit-Bank	3·3	0·9	14·5	18·7	7·6	11·1
Total	22·7	4·3	71·5	98·5	42·0	56·5

BALANCE SHEETS OF SUCCESSORS OF THE COMMERZBANK
(in DM million)

Item	1952				1953			
		of which				of which		
	Total	Commerz-und Disconto-Bank	Bankverein Westdeutschland	Commerz-und Credit-Bank	Total	Commerz-und Disconto-Bank	Bankverein Westdeutschland	Commerz-und Credit-Bank
ASSETS								
Cash Reserve	175·1	45·9	101·4	27·8	194·3	38·2	112·3	43·8
Balances with Credit Institutions (Nostro Balances)	133·8	20·6	91·4	21·8	159·2	27·3	83·0	48·9
Cheques and Interest Coupons	41·1	8·4	25·5	7·2	41·9	8·2	22·9	10·8
Bills of Exchange	427·6	69·3	267·2	91·1	655·4	94·8	414·4	146·2
Treasury Bills and Non-Interest Bearing Treasury Bonds of the German Federal Government and the Lands	14·1	2·3	11·0	0·8	0·9	0·3	—	0·6
Securities	65·5	14·4	39·4	11·7	107·8	27·6	59·9	20·3
Equalisation and Covering Claims	126·0	46·0	50·2	29·8	111·7	41·4	41·0	29·3
Holdings in Syndicates	1·5	0·5	0·9	0·1	2·1	0·6	0·5	1·0
"Debtors"	734·5	183·0	425·3	126·2	921·4	216·4	549·6	155·4
Long-Term Loans	96·9	14·5	69·5	12·9	217·7	56·6	145·5	15·6
Participations	9·4	2·3	5·0	2·1	13·2	3·1	8·1	2·0
Real Estate and Buildings	51·5	13·3	28·6	9·6	56·7	15·5	30·6	10·6
Office Furniture and Equipment	8·1	1·6	5·0	1·5	9·3	2·3	5·0	2·0
Remaining Balance Sheet Items	29·6	6·7	19·9	3·0	24·8	9·9	8·7	6·2
LIABILITIES								
Deposits	1,557·7	347·4	913·6	296·7	2,055·8	441·1	1,176·6	438·1
of which—								
Sight	856·9	176·4	438·9	141·6	823·1	175·3	495·6	152·2
Time	686·0	138·4	412·9	134·7	1,055·1	215·6	584·0	255·5
Savings	114·8	32·6	61·8	20·4	177·6	50·2	97·0	30·4
Borrowed Funds (Nostro Liabilities)	107·6	19·6	79·6	8·4	119·2	14·1	97·4	7·7
Acceptances in Circulation	—	—	—	—	11·9	—	11·9	—
Loans taken at Long Term	72·4	14·9	49·2	8·3	122·4	35·3	78·2	8·9
Capital	50·0	12·5	27·5	10·0	62·5	12·5	40·0	10·0
Reserves in accordance with Article 11 of the Banking Law (KWG)	22·5	6·0	12·0	4·5	26·5	7·5	14·0	5·0
of which—								
Legal Reserve Fund	7·5	2·0	4·0	1·5	7·5	2·0	4·0	1·5
Voluntary Special Reserve Fund	15·0	4·0	8·0	3·0	19·0	5·5	10·0	3·5
Reserves for Special Purposes	68·5	18·7	37·5	12·3	87·6	19·6	52·3	15·7
Remaining Balance Sheet Items	36·0	9·7	20·9	5·4	30·5	12·1	11·1	7·3
Balance Sheet Total	1.914·7	428·8	1,140·3	345·6	2,516·4	542·2	1,481·5	492·7

so greatly reduced the assets of credit institutions that these were no longer enough to cover the liabilities. To enable the banks to bridge the gap which arose in this way they were given these " Equalisation Claims ". They bear 3 per cent. interest ; there are no specified arrangements for redemption ; they are eligible as collateral security for Central Bank loans ; and they can be bought or sold only as between credit institutions and at their par value. It is true that, as the volume of balance sheets has grown while interest rates have fallen, this item among the assets has become to some extent less burdensome as a factor reducing both earning power and liquidity ; but in those balance sheets it still represents a foreign body, the efforts to remove which have so far been unsuccessful.

Owing to differences in the method of entering items of receipts and expenditure the profit and loss accounts do not permit any comparative conclusions as to the banks' earnings. The annual reports, and statements made by the managements, do, however, show that in most lines the expansion in business was considerable. During 1953 the

BALANCE SHEETS OF SUCCESSORS OF THE DEUTSCHE BANK
(in DM million)

Item	1952				1953			
		of which				of which		
	Total	Norddeutsche Bank	Rheinisch-Westfälische Bank	Süddeutsche Bank	Total	Norddeutsche Bank	Rheinisch-Westfälische Bank	Süddeutsche Bank
Assets								
Cash Reserve	465·1	88·1	190·2	186·8	517·7	101·5	197·3	215·9
Balances with Credit Institutions (Nostro Balances)	221·6	66·2	82·9	72·5	305·9	72·4	142·7	90·8
Bills of Exchange	1,032·2	218·9	471·0	342·3	1,269·9	183·5	602·6	483·8
Treasury Bills and Non-Interest Bearing Treasury Bonds of the German Federal Government and the Lands	6·8	—	1·2	5·6	38·1	—	20·3	17·8
Securities	77·6	14·7	31·7	31·2	221·9	62·2	67·7	92·0
Equalisation Claims on the Government	417·6	89·3	137·3	191·0	419·2	89·6	136·4	193·2
Holdings in Syndicates	10·0	0·5	7·2	2·3	15·6	0·1	11·2	4·3
" Debtors "	1,752·6	320·1	721·3	711·2	2,003·4	410·4	800·3	792·7
Long-Term Loans	291·6	28·7	95·8	167·1	393·4	68·1	144·8	180·5
Participations	12·9	2·5	7·3	3·1	17·1	2·6	8·7	5·8
Real Estate and Buildings	73·0	13·1	32·9	27·0	82·7	16·6	35·2	30·9
Office Furniture and Equipment	17·2	2·8	7·5	6·9	14·7	2·3	6·4	6·0
Remaining Balance Sheet Items	109·3	12·6	61·8	34·9	131·4	14·9	67·8	48·7
Liabilities								
Deposits	3,626·3	723·8	1,483·5	1,419·1	4,483·3	862·4	1,850·0	1,770·9
of which—								
Sight	1,975·6	422·0	805·5	747·5	2,210·0	434·1	904·1	871·8
Time	1,339·5	238·1	540·9	560·5	1,789·2	325·5	737·2	726·5
Savings	311·2	63·1	137·1	111·0	484·[illegible]	102·7	208·8	172·7
Borrowed Funds (Nostro Liabilities)	124·9	29·3	63·1	32·5	104·8	32·6	46·4	25·8
Own Acceptances and Promissory Notes in Circulation	42·0	5·0	14·8	22·2	18·3	5·1	3·5	9·7
plus Own Holdings	224·7	58·8	83·1	82·8	250·2	66·8	87·4	96·0
Loans taken at Long Term	229·2	22·8	68·2	138·2	311·1	39·5	107·3	164·3
Capital	100·0	20·0	40·0	40·0	100·0	20·0	40·0	40·0
Reserves in accordance with Article 11 of the Banking Law (KWG)	75·0	15·0	30·0	30·0	85·0	17·0	34·0	34·0
of which—								
Legal Reserve Fund	25·0	5·0	10·0	10·0	25·0	5·0	10·0	10·0
Voluntary Special Reserve Fund	50·0	10·0	20·0	20·0	60·0	12·0	24·0	24·0
Pensions Reserves	83·1	16·3	30·0	36·8	89·6	16·9	33·5	39·2
Reserves for Special Purposes	111·2	18·3	56·4	36·5	130·9	23·5	62·2	45·2
Remaining Balance Sheet Items	95·8	7·1	62·1	26·6	107·7	10·1	64·5	33·1
Balance Sheet Total	4,487·5	857·5	1,848·1	1,781·9	5,431·0	1,027·0	2,241·4	2,162·2

discount rate of the Central Banking System was twice reduced, first on January 8, from 4½ per cent. to 4 per cent., and again on June 11 to 3½ per cent.—this last being the lowest level known since 1909, apart from the period between 1940 and 1948. The banks adjusted the interest rates charged to their debtors in full accordance with these changes, although the adjustment of their creditor interest rates was only partial. That cut their profit margin. In the successors of the Dresdner Bank and the Commerzbank, however, the effect of this reduction was outweighed by the growth in business, while in the case of the Deutsche Bank the receipts from interest fell short of those in the previous year. The fact that the earnings of the Deutsche Bank successors were nevertheless good is shown by their expenditure on taxes as compared with the total of their balance sheets. Actually there are many forms of tax concession applied to different things, ranging from the building of ships to allocations to pension reserves ; and the extent to which these facilities are used varies, so that there is no precise indication of the

BALANCE SHEETS OF SUCCESSORS OF THE DRESDNER BANK
(in DM million)

Item	1952				1953			
		of which				of which		
	Total	Hamburger Kreditbank	Rhein-Ruhr Bank	Rhein-Main Bank	Total	Hamburger Kreditbank	Rhein-Ruhr Bank	Rhein-Main Bank
Assets								
Cash Reserve	399·3	164·4	106·5	128·4	345·1	97·2	122·8	125·1
Balances with Credit Institutions (Nostro Balances)	239·5	85·9	75·9	77·7	284·8	94·0	71·4	119·4
Bills of Exchange	708·3	109·2	335·6	263·5	814·4	136·9	373·8	303·7
Treasury Bills and Non-Interest Bearing Treasury Bonds of the German Federal Government and the Lands	12·1	—	—	12·1	12·2	—	—	12·2
Securities	110·5	26·5	27·1	56·9	233·1	80·4	60·3	92·4
Equalisation Claims on the Government	238·9	57·1	89·9	91·9	237·8	59·0	88·7	90·1
Holdings in Syndicates	12·6	5·3	4·7	2·6	11·0	4·5	4·7	1·8
"Debtors"	1,040·0	242·3	387·4	410·3	1,300·1	324·2	464·5	511·4
Long-Term Loans	149·6	7·0	99·4	43·2	221·7	29·1	130·7	61·9
Participations	22·7	6·4	9·2	7·1	27·6	9·9	10·1	7·6
Real Estate and Buildings	62·8	11·6	22·3	28·9	72·2	14·8	25·9	31·5
Office Furniture and Equipment	11·2	2·0	3·4	5·8	11·6	2·0	3·9	5·7
Remaining Balance Sheet Items	67·9	8·4	26·7	32·8	80·9	11·1	29·1	40·7
Liabilities								
Deposits	2,575·8	634·8	933·9	1,007·1	3,091·0	738·9	1,139·8	1,212·3
of which—								
Sight	1,260·4	301·2	456·4	502·8	1,509·3	337·3	545·9	626·1
Time	1,146·6	298·8	415·9	431·9	1,321·9	348·0	497·6	476·3
Savings	168·8	34·8	61·6	72·4	259·8	53·6	96·3	109·9
Borrowed Funds (Nostro Liabilities)	110·7	27·9	65·2	17·6	100·1	33·6	45·5	21·0
Own Acceptances and Promissory Notes in Circulation	24·0	—	24·0	—	—	—	—	—
plus Own Holding	127·6	40·1	36·2	51·3	96·6	35·6	33·7	27·3
Loans taken at Long Term	119·6	6·4	74·4	38·8	176·9	22·5	100·1	54·3
Capital	93·0	21·0	36·0	36·0	93·0	21·0	36·0	36·0
Reserves in accordance with Article 11 of the Banking Law (KWG)	46·0	14·0	16·0	16·0	56·5	16·5	20·0	20·0
of which—								
Legal Reserve Fund	22·5	6·5	8·0	8·0	22·5	6·5	8·0	8·0
Voluntary Special Reserve Fund	23·5	7·5	8·0	8·0	34·0	10·0	12·0	12·0
Reserves for Special Purposes	82·0	16·3	33·6	32·1	102·0	21·5	38·0	42·5
Remaining Balance Sheet Items	24·3	5·7	5·0	13·6	33·0	9·1	6·5	17·4
Balance Sheet Total	3,075·4	726·1	1,188·1	1,161·2	3,652·5	863·1	1,385·9	1,403·5

sums that were earned on current business. One can of course assume that the managements of the banks will have done their best to keep their payments of taxes down to the

lowest level permitted by law, and that hence the tax payments will approximately reflect their position in respect of earnings. Subject to proper reservations, therefore, it is possible by comparing the amount of taxes paid with the balance sheet total to establish something in the nature of the differential earning power of the individual banks.

Incidentally the comparison between the total paid in taxes with the capital brings out how very high the burden of taxation is. For the year 1953 the tax collector took from the nine successor institutions an amount equal to nearly 50 per cent. of their capital, with in some cases a very much higher proportion such as that of around 80 per cent. for the Deutsche Bank group. In 1938, by way of contrast, the taxes falling on the big three banks amounted to only 11 per cent. of their capital.

The dividend was raised in the case of all nine banks from 6 per cent. for 1952 to 8½ per cent. for 1953, which latter rate puts them into the highest class among West German limited companies as regards current dividend payments. The increase in dividend was not solely due to the business results for the year being correspondingly favourable. On the contrary, it mainly reflects the fiscal concession which the legislature has applied to distributed dividends as from 1953 by lowering the rate of tax on them from 60 per cent. to 30 per cent. for limited companies. The full benefit of this reduction in the Corporation Tax has accrued to the shareholders. The effect is that the revenue authorities are bearing most of the charge for the addition of 2½ per cent. to the dividend distributed. Since the banks attach importance to the permanent maintenance of an adequate rate of dividend, it may perhaps be well to pay some attention to a remark made by the management of one of the successor institutions: this was that any further tax concession which may be granted as part of the forthcoming tax reform will not necessary lead to an increase of dividend for 1954.

	Ratio of amount of taxes paid to capital %
Norddeutsche Bank	66·5
Rheinisch-Westfälische Bank	92·5
Süddeutsche Bank	73·5
Total	79·7
Hamburger Kreditbank	20·9
Rhein-Ruhr Bank	28·6
Rhein-Main Bank	21·1
Total	24·0
Commerz-und Disconto-Bank	34·4
Bankverein Westdeutschland	37·8
Commerz-und Credit-Bank	33·0
Total	36·3
Average for all three groups	48·8

Outside the frontiers of Western Germany many people have noticed with much interest that not only have the annual reports of the three successor institutions in each group the same external form, but in addition large sections of their texts are identical, as was already the case for 1952. Closer examination reveals that they also drew up their balance sheets according to the same principles. From this it may be deduced that the three successor institutions formed from each of the big banks have not grown apart during the years of their existence to date. Nor indeed do they fail constantly to emphasise the fact that they belong together; and in German publications just as in other countries it has become common practice to speak of them in each case as members of a group, namely the Deutsche Bank, Dresdner Bank and Commerzbank groups. The facts which have been stated as to the course of business are enough to show that the banks in each group have followed a uniform business policy. Indeed the differences which emerge as between the balance sheets are not so much between the individual banks as between the three groups. This is chiefly the result of a tradition of many decades, which is still alive to-day in each of the successor banks, and which has lost nothing of its formative power through the splitting up of the three to form nine.

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Special Features of the West German Central Banking System

By Willi Schmidt

In certain respects the structure of the West German Central Bank differs from the organisational pattern followed by other large banks of issue. In line with the political structure of West Germany—which is federal in character, with the Länder as the chief elements forming the State—the organisation of the Central Banking System runs also on federal lines. Each West German Land was given a Land Central Bank of its own, with the Bank deutscher Länder as head of this regional substructure. The actual *business* of the Central Bank is conducted by the Land Central Banks, which are thus the executive organs of Central Bank policy and, in their regions, assume the tasks of a " Bankers' Bank ", in other words, a reserve bank and a rediscounting institution for all credit institutions domiciled in their respective districts. Thus the Land Central Banks are by no means independent banks of issue with autonomous powers ; functionally, despite their *legal* independence, they are comparable to the branches of the centrally directed former *Reichsbank*. Since all banking transactions take place only between the individual Land Central Banks and the credit institutions, this means that the Land Central Banks are obliged to have recourse to the Bank deutscher Länder—the central organ of the System--to finance any withdrawal of deposits, or demand for bank notes, in their area. The Land Central Banks can thus be said to attend to the business of the bank of issue in its relations with the banks outside the System, although they do not themselves hold the privilege of issuing notes ; the Bank deutscher Länder, on the other hand, wields the monopoly as regards the issue of notes, although normally it does not enter into dealings with the banks outside the System but maintains *internal* financing relations with the Land Central Banks, granting them rediscount and similar credits. By way of exception, the cash transactions of the Federal Government and any credits to the Federal Government and other central authorities are handled direct through the Bank deutscher Länder, with whom the foreign exchange reserves are likewise concentrated. Actually, these two fields in which the Bank deutscher Länder takes a direct hand in central bank business give rise to certain special problems in connection with the liquidity situation of the Land Central Banks and their need for recourse to the Bank deutscher Länder : with these problems, however, we need not concern ourselves in greater detail for the purposes of this general outline.

It goes without saying that within a uniform currency area it is imperative to follow a uniform policy as regards credit and currency. This uniformity of credit and currency policy in the two-level system is ensured by the fact that the Presidents of the nine Land Central Banks* together with the President of the Board of Managers and a full-time Chairman (President of the Board of Directors) form the policy-making organ of the Bank

* The President of the Berlin Central Bank attends the meetings of the Board of Directors as a member in an advisory capacity.

deutscher Länder, the Board of Directors, who are responsible for the common policy in banking matters. The President of the Board of Directors and the President of the Board of Managers are elected by the nine Presidents of the Land Central Banks. The Board of Managers of the Bank deutscher Länder is responsible for the management of the Bank and the execution of the resolutions adopted by the Board of Directors. Thus the body heading the central institution forms two distinct set-ups, one representing a policy-making organ which in its composition reflects the pattern of the sub-structure, the other an executive organ. This dualism in the management of the Bank explains the dual presidency which outsiders often find hard to understand.

BANK DEUTSCHER LÄNDER

Board of Directors (Policy-making Organ)	Board of Managers (Executive Organ)
President of the Board of Directors	
President of the Board of Managers (at the same time Vice-President of the Board of Directors)	President of the Board of Managers
9 Land Central Bank Presidents	Vice-President and 6 further Members

An internal distribution of power and division of the responsibilities and functions, such as we find in the institution of the dual presidency, by no means represents a novel feature in the history of political and economic organisations. After all, the ancient Romans did not fare badly when over many centuries they entrusted the affairs of the state to two Consuls forming a dual instrument of leadership for the state ; it will also be remembered that the Spartans for a long time allowed themselves to be governed by two Kings*. Although these examples relate to a different level and were certainly characterised by different conditions, the principle doubtless remains the same.

Not infrequently the structure of the West German Central Banking System is compared with the organisational plan underlying the Central Banking System in the United States. It is thought that the federalistic structure is copied from the American precedent. However, such a comparison is permissible only subject to certain limitations and can at best be conceded only in respect of certain outward features of organisation : while Germany possesses nine Land Central Banks on a regional level, the United States has twelve Federal Reserve Banks with regionally restricted areas of business ; both countries possess regional banks exercising the functions of banks of issue, although they do not hold any autonomy as regards bank of issue policy. On the other hand, the structure of the " top level " and the internal process in forming resolutions in the matter of credit policy are basically different. In West Germany the central authority is a *bank*, whereas the Federal Reserve Board in America is simply a *co-ordinating organ* without any banking functions. However, the essential difference becomes apparent in the *modus procedendi* in policy-making. In West Germany, owing to the composition of the Board of Directors, the regional organisations take an essential part in policy-

* I am indebted for this point to Dr. Per Jacobsson, Executive Officer (Economic Adviser) of the Bank for International Settlements at Basle).

making, while in the case of the Federal Reserve System policy-making takes an entirely different direction and is essentially vertical. The members of the Board are appointed by the President of the United States, *i.e.*, by a central authority. In contrast to the German system no representative of the twelve Federal Reserve Banks belongs to the Board. Nor are the Federal Reserve Banks, as in Germany, institutions of the States; as the name itself indicates, they are federal institutions, and their business is not confined to the area of any one State. The districts of the twelve Federal Reserve Banks cover areas forming economic units, without regard to the borders of the 48 States.

Some critics look upon the fact that decentralised elements are components of the West German Bank of Issue System as indicative of a state of affairs calling for revision. They therefore advocate a return to the type featuring a central organisation, *i.e.*, to a centrally managed Federal Bank with its own dependent branch network. Since the West German Bank of Issue stems from legislation laid down by the three western Occupying Powers and Allied Law is to be replaced by German Law, as stipulated in Article 88 of the Basic Law, the "Centralists" look upon the discussion on the redrafting of the Law as providing a welcome possibility and opportunity of asserting their demands. Adherents of the existing type of organisation, on the other hand, point out that the principle of decentralised organisation has not only shown itself to be capable of functioning, but under the prevailing circumstances has actually proved highly successful. They add that decentralisation does not mean that the *policy* of the Bank of Issue must necessarily be decided in a *decentralised* form. The fact—considered by the opponents of the system to be inconvenient—that the Land Central Banks are *legally* independent, does not, it is observed, mean that they must necessarily be independent as regards Central Bank policies. It is pointed out that the Land Central Banks cannot be compared with the multitude of regional banks established in the nineteenth century and entitled to issue paper money; together with their Central Institution, the Bank deutscher Länder, they form an organisational unit which operates as such in the matter of central bank policy as well. The principle of decentralisation would thus be relevant only in respect of the process of an internal policy-making procedure; it is conceded that here—in a very limited field—decentralisation is indeed a principle vastly superior to any other.

At the time when the Central Banking System was established* it was quite permissible to feel some doubt as to whether the novel and different organisational structure, which the critics even went so far as to term eccentric, would prove its mettle. To-day it may be said that probably at the time the Allied side was not altogether loath to incorporate certain elements tending to weaken the structure of the bank of issue. These measures adopted on the Allied side were not the only ones to be governed by the conception that it was the task of the occupying powers to oppose any excessive concentrations of power and any form of monopoly in Germany, wherever such tendencies were encountered or imagined. In view of these motives and conceptions it may well be said to have been a "ruse of reason" that the structural elements tending to bring about a weakening, in actual practice produced a contrary effect and even contributed to the internal consolidation and strengthening of the system.

* The Land Central Banks were established during the years 1947–48; the final step was the institution of the Bank deutscher Länder in 1948, a few months before the Monetary Reform.

Readers in Great Britain may possibly be interested at this point to learn the practical and non-emotional arguments which the protagonists of the decentralised system advance in substantiation of their views. Now that the system has proved its worth over a period of six years those in favour of it do not have to rely on general theoretical considerations, but are quite able to found their judgment on experience and on intimate knowledge of the true functioning of the system. Between the " Centralists " and the " Decentralists " —if I may be permitted for the sake of brevity to employ these terms—there exists *no* difference of opinion as to the fact that in the interests of protection of the manipulated currency a maximum of *independence* for the bank of issue is desirable. If this is allowed, the decentralists believe that the very decentralised composition of the policy-making organ, *i.e.*, the Board of Directors, offers the best guarantee for the maintenance of independence. According to this conception it is not enough with great emphasis to proclaim independence in the law governing the bank of issue. Rather must the decisive element be seen in the fact that *institutional* guarantees for the maintenance of such independence are created. Herr Pfleiderer, a staunch supporter of the principle of decentralised organisation, has expressed this notion in very fitting terms as follows*: " . . . Surely nobody will be prepared to believe that a bank of issue whose directors are appointed by the Federal Government—which is, of course, a central authority and at the same time the central bank's greatest potential borrower—can possess a greater degree of independence than an institution whose board is appointed by a number of different authorities. On the contrary: the principle of two-level organisation is, without doubt, the strongest institutional guarantee which can be conceived for the independence of a bank of issue."

In a world in which the currency has become a matter of public interest of overriding and supreme importance, a true *res publica*, the Central Banking System can naturally not hope to reach a status in some way reminiscent of that of the Roman Catholic Church, which is in a position to select all personnel and make every nomination, including the election of the Pope, without being subjected to any outside influence. No modern central banking system can ever keep entirely aloof from political influences and state intervention. To demand still greater freedom would surely be unrealistic. As long as a large number of nominating authorities—under the present-day Central Banking System these are the Länder Governments, which appoint the Presidents of the Land Central Banks—participate in the composition of the policy-making body, there definitely exists a certain protection against any attempts at exercising unilateral and centrally directed influences. The process of policy-making on so wide and decentralised a foundation ensures the proper balance of political and economic forces; conflicting views and powers seem to retain better equilibrium in the decentralised system. This inherent and institutionally guaranteed equilibrium imparts to central bank policy a measure of stability, so that fluctuations in the political development, whether at federal or at state level, do not make themselves felt as an element of disturbance in the policy of the bank of issue. The legal independence of the Land Central Banks must not be construed as a scheme in the direction of federalistic autonomy, but as a form of organisational technique by which the overpowering influence of political authorities is curbed.

* Cf. Otto Pfleiderer " Einstufige oder zweistufige Notenbank? ", *Industrie-und Handelsblatt, Nachrichtenblatt der Industrie-und Handelskammer Stuttgart*, 1953, No. 10.

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There is yet another aspect, under which the system whereby the activities of the central bank are directed by a federalistic organ has shown itself to be a sound organisational principle. Within such a system it is easier to form and maintain a body in which the responsible members meet as policy-making *colleagues* as opposed to the administrating executives in a centrally governed bank of issue. Since all members of the Central Bank board have a status of factual and legal equality, any preponderance on the part of individual persons or groups is *ex institutione* prevented. One might say that thus the dispersion of power forestalls any authoritarian abuse of power, without leading to the annihilation of power. A great deal of abstract thought can be devoted to this aspect of the problem, but in view of the limited space available I feel I must limit myself to these brief indications.

On the other hand I believe it is necessary to deal with one more objection which the opponents of a decentralised system frequently advance in impressive form ; and indeed it seems only fair to allow the opposition to put forward their main argument. The Land Central Banks have been, and are still being, reproached with wielding in a non-uniform manner a credit policy which was uniformly resolved, and indeed with having in serious cases disregarded the instructions of the Board of Directors which ought to be binding upon them. Thus Herr Preusker—who is at present the Federal Minister for Housing Construction and the spokesman of the Centralists—takes the line that only the one-level system would be able to ensure absolute conformity and uniformity of all decisions in the field of economic, credit and currency policies, and that only a centralistically organised bank of issue would be able to guarantee the automatic unity of currency and central bank policy within the Federal area by uniform standards and rules. This line of argument, which can be extended *ad lib.* by similar examples and claims, would seem to overlook the fact that the existing system *de facto* and *de jure* forms an organisational unit, and operates as such in the field of central bank policy. The necessary latitude of *discretion* which the Land Central Banks must be granted in handling their own banking business is not tantamount to authoritarianism, or even arbitrariness, in shaping credit policies, and to overall autonomy. The main point is that the regional substructure is not allowed any latitude of discretion in matters of principle. In Germany the granting of rediscount or similar credits to the credit institutions forms the foundation of all banking activities carried out by the Central Banking System. The volume of central bank money adequate to the prevailing situation is thus not created by global and anonymous operations carried out by the bank of issue on the money market, but by granting or denying rediscount and similar credits. The granting of such facilities, however, will always retain an individual touch, so that discretional decisions relating to the individual transaction are inevitable ; it would be impossible for a central brain to take such decisions, and actually this was never centrally done in the old *Reichsbank* system. Moreover, in complaining about lack of uniformity in the handling and exercise of credit policy one must be careful not to overlook the fact that the regional differences characterising the economic structure frequently provide obstacles in the way of a standardised enforcement of credit policy. Difficulties of this nature do not spring from the subjective attitude of the Land Central Banks but from the objective circumstances ; and in any case these difficulties are not in the nature of a disaster as long as the credit policy in its overall concept maintains a firm and unyielding attitude.

Finally, it might be as well to discuss a certain characteristic of the two-level system which frequently seems to mislead outsiders as to the functioning of the system and the internal " re-financing " relations between the Bank deutscher Länder and the Land Central Banks. For its rediscount credits and advances on security extended to the Land Central Banks, the Bank deutscher Länder fixes special rates of interest known as *internal* discount and advance rates. Thus at present the official discount rate for business transactions between the Land Central Banks and the banks outside the Central Banking System is fixed at 3 per cent., while the rate for advances on security is 4 per cent.; internal transactions between the Land Central Banks and the Bank deutscher Länder, on the other hand, are subject to a rate of ½ per cent. for discount and a rate of 1 per cent. for advances on security. In theory, the internal interest rates are just as flexible as the official bank rate, although in actual practice they are changed much less often. The Land Central Banks are furthermore obliged to maintain minimum reserves with the Bank deutscher Länder. The fixing of internal interest rates and the requirement of an internal minimum reserve obligation apparently, especially to outsiders, seem to indicate that the two-level organisational system somehow or other involves a credit policy likewise applied on two levels; in other words, that at the top level the Bank deutscher Länder controls the " re-financing " credit extended to the Land Central Banks by varying the interest and minimum reserve rates, so that on the lower level the Land Central Banks are obliged to adapt their attitude in matters of credit policy to the rediscount and advance facilities accorded to them by the Bank deutscher Länder. Although it is possible that the founders of the decentralised system originally may have had some such notion of a two-level function, this possibility, which theoretically exists, is never applied in actual practice. Within the system welded together into a functional and organisational unit there is no need in internal relations, that is to say on the level between the Land Central Banks and the Bank deutscher Länder, to resort to the traditional instruments of central bank policy in controlling the behaviour of the Land Central Banks in matters of credit policy. This policy is determined by the Board of Directors as an administrative issue, binding upon and uniform for all Land Central Banks. To the extent that the granting of rediscount and similar credits to the banks outside the Central Banking System necessitates internal recourse to the Bank deutscher Länder, such internal assistance by the Bank deutscher Länder is automatically at the disposal of the Land Central Banks. Recourse to the Bank deutscher Länder must be looked upon in the light of a book-keeping process devoid of any significance in terms of credit policy. The internal charging of interest and the internal minimum reserve liability thus merely determine the distribution of the gross profits within the System. Assuming that the internal discount rate were increased (or reduced), the Bank deutscher Länder would receive a larger (smaller) share of the gross discount proceeds of those securities which were handed over to it for internal rediscounting, and the Land Central Banks conversely less (more). Assuming, furthermore, that the minimum reserve rate were increased, the Land Central Banks would be compelled *pro tanto* to transfer interest-bearing assets to the Bank deutscher Länder; in the same proportion the profits of the Land Central Banks would revert to the Bank deutscher Länder. Since the profit situation of the Land Central Banks for a number of reasons has become subjected to greater pressure than the earnings of the Bank deutscher Länder, the minimum reserve rate for the Land Central Banks for quite some time has been fixed at the lowest level permissible under

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the law. The discount rate, too, is extremely low. It is by no means impossible that in the forthcoming Federal Bank Law—provided it were to retain the two-level structure —the internal minimum reserve requirement for the Land Central Banks will be done away with, such profit compensation as might be necessary being brought about in some other manner.

A certain group of centralistically inclined legal experts take the view that the Basic Law categorically demands the establishment or reorganisation of a centrally directed Federal Bank of Issue (Art. 88, Basic Law). Other experts of high repute oppose this view with great determination, stating that they fail to discern in the written Constitution of the Federal Republic any indication specifying some particular type of organisation. Quite possibly this dispute will one day be heard before the supreme German Court, the Federal Constitution Court. It is impossible to foretell how the Court is likely to decide in this delicate case. Supposing a decision were returned in favour of the " centralists ", the followers of the principle of decentralised organisation would naturally abide by such a decision on the part of the supreme German court. Their foremost task in the redrafting of the law would, however, then be concerned with elaborating, based on their ideals and experiences, practicable suggestions for a system designed to avoid any exaggeration of centralisation and to retain a certain degree of decentralisation. After all, it is quite possible to imagine an organisational structure which, while reverting to the *legal* unity of the Central Bank System, yet retains a certain measure of decentralisation. Not only for the bank of issue but indeed in many other fields of public life decentralisation has shown itself to be an extremely beneficial organisational and political principle, and one which certainly comes closer to the values of our liberal world and allows them greater latitude than does centralisation, which is so often mechanistic. It would indeed be difficult to see why a conception which has proved its worth should be sacrificed on the altar of rigid dogmatism.

Western Germany's Capital Market still Lagging

By Volkmar Muthesius

Editor of the *Zeitschrift für das gesamte Kreditwesen*

WESTERN Germany has the reputation of having largely succeeded in introducing freedom of competition into its economy. Professor Ludwig Erhard, the Federal Minister for Economic Affairs, who likes to call himself the " singer of freedom " is regarded in the eyes of the world as the defender of the characteristically German new liberalism created by Federal Germany. And, indeed, scarcely anybody in the whole world dares to doubt that the Germans have achieved peak results, so to speak, by free competition in enterprise ; but at the same time it is

frequently overlooked that there are parts of the Western Germany economy where, by and large, free competition does not always apply. These parts hold a key position in the economic life and, when not subject to the " push-pull " of the market, will continue to have an " infectious " effect on adjacent parts of the economy. This is especially true of the capital market which will now be briefly dealt with.

First of all, it must be mentioned that it is no longer appropriate to speak of an absence of capital accumulation. On the contrary: if one considers what shocks savers in Germany have suffered since the first world war, then the revival of the wish to save which could be seen after the effect of the currency reform of 1948 had been overcome, can only be described as one of the greatest surprises in the economic life of Western Germany. The so-called account-saving, the accumulation of cash in form of saving deposits has increased to an unexpected extent; and the figures, which exceed the pre-war totals, have initiated considerable discussions as to what extent this form of capital accumulation can nowadays still be regarded as genuine "fixed investment". The academic and economic-political discussions lead more and more to the undoubtedly important and interesting question as to whether saving deposits are money or money capital, in other words, to what extent they are representing, say, a modern kind of " hot money". But whatever one's opinion may be about this dispute—which is not only terminologically significant—saving deposits in Western Germany are for the time being continuing to increase considerably. In 1952 there was a net increase of DM 2,400 million, in 1953 a surplus of more than DM 3,800 million and, taking the monthly average, this curve is still pursuing an upward course. The total, which at present (end of April) amounts to DM 13,500 million, will, if the present development continues until the end of the year, increase to at least DM 15,000 million, thereby reaching an amount of about DM 300 per head of the population. In other words: the population of Western Germany has rebuilt 65 per cent. of its pre-war saving deposits in the course of only six years which have elapsed since the currency reform.

The development of savings by means of insurances, that is to say, through policies of private life assurances, has been and continues to be favourable. Here are a few of the most important figures: in the last pre-war year the amount of policies—the total sum of all contracts of individual life assurances—amounted to just over 30,000 million of the old *Reichsmark.* After the extensive destruction of balances by inflation and currency reform, a total sum of policies of about DM 25,000 million has been rebuilt, and the yearly inflow of premiums of free contract life assurances amounts already now to considerably more than DM 1,000 million; it must also be taken into account that this form of saving and capital formation is in addition to social insurance—which is obligatory and has been greatly developed in Germany—the yearly contributions of which total about DM 5,000 million.

Besides this satisfactory development, there is, however, one field in which the return to normal could not take place so quickly. And even to-day one cannot yet speak of a normal situation. This is the capital market in its narrower sense, that is to say, the accumulation of capital as expressed in stocks and shares. This has obviously

lagged behind in the general freeing of the economic sphere. And in spite of the purely quantitative improvement, this progress proves, when analysed more closely, to a large extent rather problematical.

Let us first of all look at the turnover of fixed-interest bearing securities. The following table shows the development since the currency reform of 1948 :

MONTHLY AVERAGE OF TURNOVER OF SECURITIES IN WESTERN GERMANY
(in DM million)

Year	Fixed-Interest Bearing Bonds and Shares	Mortgage and Communal Bonds	Industrial Bonds	Loans of Public Authorities	Shares
1948	3	2	1	—	—
1949	64	19	8	35	3
1950	56	26	5	17	4
1951	62	52	5	5	13
1952	122	66	11	34	22
1953	243	89	33	65	24
1954*	449	171	155	71	5

*January to April

Looked at superficially these figures show a great improvement since 1953. The turnover of securities comes closer to the figures of the twenties when stock markets were booming. However, the structure of this turnover is now obviously quite different from what it was then, and the success of issues is due to a much lesser extent than previously to buying by actual savers, that is to say, by private individuals.

Before we turn to the reasons which are responsible for this state of affairs, we must make some remarks regarding the reason why the issue of fixed-interest bearing securities could be started again only much later than savings in the form of deposits and of insurances. The most important reason is probably that in Western Germany for many years after the currency reform, there was a certain tendency to forget the economic laws regarding the interest rate. One was inclined to overlook the bitter truth that a country lacking capital could not start rebuilding other than by offering a relatively high rate of interest. In the case of the standard security of the German stock markets, the mortgage-bonds, it was also thought necessary at the outset to link the interest rate on these bonds to the yield from housing which was then completely administered by public authorities. The rate of interest for mortgages was therefore fixed at 5 per cent. This rate of interest proved, however, to be an error and was unsuccessful. These bonds could rarely find buyers. And this was probably the essential reason for the failure of the security markets until 1952. If the social insurance institutions (*Sozialversicherungs-anstalten*) and the Ministers of Finance of the Lands had not directed a great part of the money which they decided to use for housing to the mortgage banks, these could scarcely have sold any of their bonds. And the origin of this money is by no means due to private accumulation of capital in its traditional sense.

A change only occurred when on the eve of 1952–53 a so-called law for promoting the capital market (*Kapitalmarktförderungsgesetz*) was decided upon by the *Bundestag*, by which mortgage bonds with a relatively low interest were freed from paying income tax on their yield in so far as the counterpart of these mortgage bonds were used for the social aim of building state-aided houses ; the same applied at first to loans of public authorities as well. Other fixed-interest bearing securities were also taken out of the general income tax rate group, but these were then taxed with a special coupon tax of 30 per cent. The effect of this tax law was to bring about a considerable increase in the sale of fixed-interest bearing securities—see our table above. Thus the market was split into two groups, each working on its own yield basis. Tax-free securities yield an income of a little more than 5 per cent. ; the issuer of a security on which the yield has to bear the coupon tax of 30 per cent. (such as industrial bonds), must offer to the subscriber $7\frac{1}{2}$ to 8 per cent. if the borrower wants to compete with a tax-free security. In other words, the existence of a tax-free bond has the effect that the interest rate especially for individual entrepreneurs in industry who need capital is kept on a level which in the long run is probably too high. A perceptible reduction of the rate of interest would probably have taken place if this particular method of taxation had not impeded the reduction of interest rate which would inevitably have taken place as the result of an increasing supply of capital.

On the other hand, this system has had a similarly undesirable effect on the structure of the market with regard to the buyers of securities. The share of private savers in the turnover of securities is rather small ; and in addition to public authorities, banks and the large industrial concerns now take a dominating place. These large investors acquire fixed-interest bearing bonds mainly for tax purposes, and sometimes even take bank advances for this purpose, because interest being considered as a cost reduces their tax burden, whilst the yield on securities which these buyers acquire is tax-free. One cannot, therefore, imagine that new issues have found a permanent home.

All these distortions can only be overcome when the yield of fixed-interest bearing securities freely follows the laws of supply and demand, at the same time abolishing all interference by the State, particularly those derived from tax concessions.

As contrasted with the purely quantitatively favourable development of issues of fixed-interest bearing securities, the share market shows a much more unfavourable picture. Issues in their real sense have scarcely taken place ; the figures given in our table refer almost exclusively to processes of capitalising within concerns and in these processes the open market has not been touched. In view of the still existing tax burden, money raised by issues of new shares for joint-stock companies is the most expensive money imaginable. In order to be able to distribute a dividend of 8 per cent., the new capital must yield a gross income of almost 30 per cent. This is the most important reason why industry in Western Germany has not yet been able to use the issue of shares as means of obtaining new capital. It is hoped that the tax reform, at present in preparation, will improve matters so that industry can again finance itself by issuing shares. In fact, quite a few joint-stock companies urgently need a widening of their own capital structure, as the financing has quite often to be done by a considerable borrowing from banks as a substitute for investment capital. In the interest of financial stability, this situation calls for an immediate reform.

August, 1954

Recent Legal Decisions of Interest to Bankers

By C. B. Drover

SALE OF GOODS—TIME FOR ISSUING BANK GUARANTEE

SINASON-TEACHER GRAIN CORPORATION *v.* OILCAKES AND OILSEEDS TRADING CO. LTD.

(1954 : 2 All E.R. 497 ; 1 W.L.R. 935)

By a contract made on August 11, 1952, Sinason-Teacher Grain Corporation, a New York company agreed to sell, and Oilcakes and Oilseeds Trading Co. Ltd. of London agreed to buy about 9,500 tons of Canadian feed barley c.i.f. certain European ports for shipment during October November, 1952. The payment clause of the contract provided as follows :—

> " Net cash against documents on first presentation in London. The buyers will give the sellers through their London bank the guarantee that the documents will be taken up on first presentation."

About the beginning of September, the sellers started to call for the guarantee, and finally required this to be provided by September 9, though nothing had been stated in the contract as to the date by which the guarantee had to be provided, and nothing was agreed by the buyers on this point. On September 9, Hambros Bank cabled the sellers stating that the buyers had instructed them to issue a guarantee in respect of the purchase, subject to Bank of England approval, and that details would be cabled as soon as possible. Bank of England approval was obtained on the same day and on the following day Hambros Bank cabled a form of letter of credit substantially in the terms of the guarantee required by the sellers, except in so far as insurance was concerned. Also on September 10, the sellers sent a cable to the buyers stating that as Hambros Bank's cable of September 9

> " did not contain payment guarantee therefore our deadline given for supplying performance guarantee expired without performance and we cancel deal last night."

The buyers declined to accept cancellation, and ultimately, after further exchanges of cables, formally submitted the dispute to arbitration (in accordance with the terms of the contract) on September 16.

The arbitrators found that the sellers were in default on the ground that the obligation of the buyers was restricted to providing a bank guarantee within a reasonable time before October 1, 1952, and that such reasonable time had not arrived by September 10, 1952.

On appeal to the court by way of case stated, it was HELD by Devlin, J., that the bank guarantee which was required was not a guarantee for the performance of the contract generally, but was merely a guarantee to the effect that the documents would be taken up and paid for on first presentation, and that commercially speaking such a guarantee should be treated as if it were a confirmed irrevocable letter of credit. Accordingly, the buyers need not furnish the bank guarantee until a reasonable time before it would be needed, that is to say a reasonable time before the earliest shipment date (i.e. October 1) (shipment being the event immediately leading up to the presentation of the documents), and a reasonable time had not arrived by September 10.

This case recalls the case of *Pavia & Co., S.P.A.* v. *Thurmann-Nielsen* [(1952) 1 All E.R. 492] where groundnuts were sold for delivery in February/March/April, 1949 and payment was to be by means of a confirmed credit. The buyers did not open the credit until April 22 and it was held that the buyers should have opened the credit by the first day of the shipment period whether or not they had reason to believe that the sellers were ready to commence shipping, and that the buyers were liable in damages accordingly.

In the present case, the contract did not require the buyers to open a credit, but it required them to give " through their London bank the guarantee that the documents would be taken up on first presentation." The buyers contended that a bank guarantee of this nature should be treated as a confirmed letter of credit, and that their obligation to provide such a guarantee should be measured, in so far as the time of provision was concerned, by the same principles as were applicable to a letter of credit. They therefore contended, following the *Pavia* case, that their only duty in relation to the time of providing the guarantee, was to make sure that it was available by October 1. Alternatively they contended that their obligation in this respect was to ensure that the guarantee was made available a reasonable time before October 1, and that such reasonable time had not arrived by September 10.

The judge found in favour of the buyers on the second of these alternatives, and it was not therefore necessary for him to consider the first one. It was, however, necessary for him to consider what length of time was reasonable because both parties agreed that as no time for providing the guarantee had been stipulated in the contract, it must be provided within a reasonable time, and on this basis, the question to be answered was : How is a reasonable time to be measured ? The sellers took the view that it was the buyers' duty to provide the guarantee as soon as was reasonably possible after the contract had been made. The buyers, on the other hand contended that they had fulfilled their obligations if they provided the guarantee a reasonable time before the earliest time that it could possibly be required by the sellers. It was this contention that the judge adopted.

In this respect, the purpose of the guarantee was a relevant consideration. If the guarantee was intended to guarantee the performance of the contract generally, then no doubt it ought to be furnished very shortly after the date of the contract. If, on the other hand, the guarantee was merely intended to cover one aspect of the contract, e.g., the due payment of the documents on presentation, it need only be furnished a reasonable time before the event which it covered was due to take place.

The judge reached the conclusion that the guarantee was not a performance guarantee but was merely a limited guarantee. He then went on to say (2 All E.R. at p. 501) :—

> " Counsel for the sellers submits, and I have no doubt that he is right that, as a matter of law, a bank guarantee is not the same as a letter of credit. Under a letter of credit the bank itself actually undertakes to pay against documents which are to be presented to it If it is a confirmed irrevocable letter of credit, it creates a direct relationship between the bank and the seller, and the bank becomes directly liable to the seller for the fulfilment of the obligations which it has undertaken in the letter of credit. In a bank guarantee, looked at from the legal point of view, the bank becomes liable only indirectly or secondarily as a guarantor if the buyer

fails to fulfil his obligation. The contract does not provide for the documents being presented to the bank; it provides for the bank's guarantee that the documents will be taken up on first presentation. I think that those distinctions are perfectly true, but commercially speaking, it seems to me that the two documents should be treated in the same way, and what is a reasonable time for tendering the documents is a question of fact to be measured in the light of commercial considerations and what the commercial purpose of the contract is. A confirmed irrevocable letter of credit fulfils all the purposes of a bank guarantee, and far more than a bank guarantee, but I think that a bank guarantee is sufficiently analogous to a letter of credit for it to be said that the same sort of principles ought to be applied in measuring the time."

Having reached the conclusion that the guarantee was not a performance guarantee but was merely a limited guarantee, it followed that the time for tendering the guarantee had to be measured in relation to the event guaranteed and not from the fact that the contract had been entered into.

So called " letters of guarantee " are becoming more commonly used by banks, and the present case is interesting in that it sheds a little light (though only a very little) on the legal effect of these documents. The sort of thing that one gets is this. A Ltd. contracts to build a distillery for B Ltd. and it is a term of the contract that B Ltd. will furnish A Ltd. with a bank guarantee to the effect that the bank will pay A Ltd. the final instalment of the purchase price of £500,000 as soon as the distillery is producing spirit of a specified quality. Strictly speaking this is not so much a guarantee as a letter of credit or a letter of undertaking. A guarantee implies that the guarantor will pay if the principal debtor does not, and that before resorting to the guarantor the creditor will resort to the principal debtor. On the other hand, with the type of document described above, it is generally understood by all concerned that when the time for payment arrives, it is the bank to whom application for payment would be made in the first instance, and not B Ltd.

Again, so called " letters of guarantee " are issued instead of letters of credit where payment is only to be made (*a*) against the delivery of specified documents, *and* (*b*) after the occurrence of a specified event. For example, a letter of guarantee might be issued providing for the payment of £1,000 to the beneficiary against delivery of shipping documents, and upon arrival of the carrying steamer at its port of destination.

It is submitted that documents of these types, and especially those of the latter class, are analogous to letters of credit, and that in many respects the rules relating to letters of credit would apply. For example, it is quite clear that the issuing bank would not be entitled to debit its customer with payments made under such letters of guarantee, unless the conditions prescribed in them had been strictly fulfilled. And this feature gives rise to a consideration of paramount importance when drafting such letters of guarantee.

It is of the very greatest importance that the conditions of payment in the letter of guarantee should be so framed that the issuing bank can be quite certain whether or not they have been fulfilled.

Let us, for example, take the first case mentioned above, where the bank had given a letter of guarantee to pay A Ltd. £500,000 as soon as the distillery was producing spirit of a specified quality. The bank receives a demand from A Ltd. for £500,000

accompanied by a statement by A Ltd. that the condition in the letter of guarantee has been fulfilled. The letter of guarantee does not provide what evidence the bank may accept that the distillery is producing spirit of the required quality, and the only practical way in which the bank can be absolutely certain that the correct spirit is being produced, is by asking its customer B Ltd. Supposing B Ltd. does not want payment to be made to A Ltd. for some reason, and either declines to answer the bank's enquiry or wrongly states that the spirit produced is not of the specified quality. The bank is left in an extremely embarrassing position. It is faced with an importunate and probably irate beneficiary, yet payment cannot safely be made under the letter of guarantee. The bank's credit may suffer and there is always the risk of a law-suit at the instance of the beneficiary.

To avoid a situation of this nature arising, it is very advisable to express the condition in such a way that there cannot be any doubt whether or not it has been fulfilled. For example, in the above-mentioned case, all embarrassment from the bank's point of view would have been obviated if the bank had undertaken to pay £500,000 on receipt of a certificate signed by X (who could be some independent third party) to the effect that the distillery was producing spirit of the required quality. The certificate would then be a conclusive document. If it was forthcoming the bank would have to pay; if it was not available the bank would be prohibited from paying. The bank would know exactly where it stood and so would the other parties to the transaction.

Similarly, in the other example mentioned above, it would be better to provide that the money should become payable under the letter of guarantee upon receipt by the bank of a letter from the shipowner stating that the ship had arrived at its destination than to state merely that the money would be paid on arrival of the vessel. It is always possible for an argument to arise as to whether or not a ship has arrived, and it is naturally more satisfactory to take contingencies upon which money becomes payable outside the realms of argument.

Better Cheques—Some Suggestions

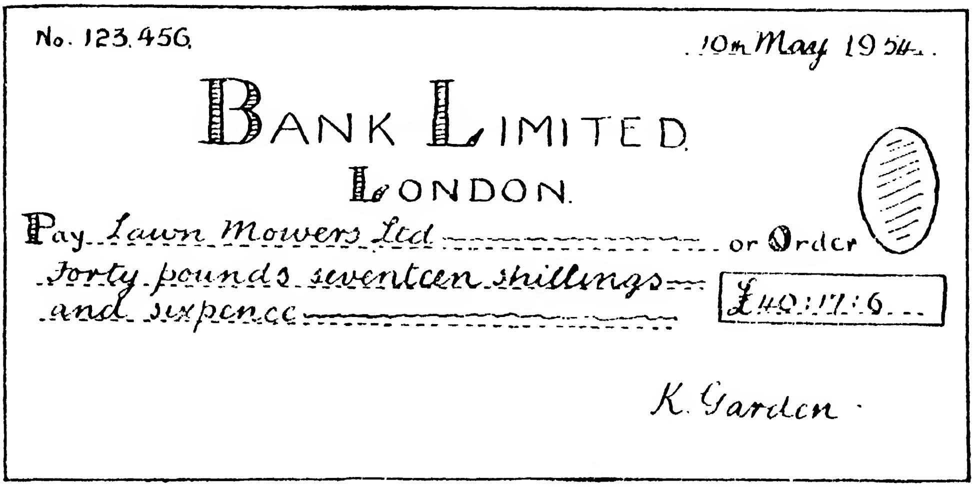
By E. F. Godwin

HIGHER wages are bringing more and more customers into the banks. Each newcomer needs help and guidance with even the simplest transactions, in order to give him confidence, and it is not enough to issue booklets for this purpose. Advice on the way to draw cheques must be at hand when and where it is needed, that is, within the cheque book itself. The appropriate place is on the inside front cover, for it is here that the customer will look when he is about to write his first cheque.

It would be useful for the newcomer to banking to find here a facsimile cheque, just like the one he is about to use, properly filled in as a specimen, and with simple explanations he can follow from the outset. Space will not allow a full set of instructions

to appear on the same page as the facsimile cheque, but attention might be drawn to the place where they are to be found, say on the back inside cover.

The facsimile might take this form :



The notes would, of course, include advice designed to avoid those mistakes which are commonly made by customers, in this way :

NOTES ON MAKING OUT CHEQUES.

1. *Date :* See that this is correct. If by mistake the cheque is made to appear out of date, or to be dated ahead, the bank would refuse payment.
2. *Payee.* Be careful to spell the name correctly. If cashing to yourself enter "Self" and then write your signature on the back, as an endorsement, after you have completed the face of the cheque.
3. *Amount.* Write in words plainly, leave no spaces for unauthorised insertions or alterations, and see that the sum tallies with the figures, which should be shown clearly.
4. *Signature.* Sign at the lower right-hand space, and always use the same form as that given to the bank when the account was opened. If you change the style of your signature you should give the bank a new specimen.
5. *Alterations.* Alterations should be avoided, but where they are unavoidable cross out what is wrong, add the correct version above, and confirm this with your initials written alongside each alteration.

The customer, having been shown how to use his cheques, might very well wonder why they bear such an odd appearance. The present form of lay-out is a commendable attempt at uniformity in design, but it is not by any means perfect. The worst defect is the empty space which has been allowed to remain at the lower left. The effect of this gap is to tempt customers into signing more to the left than is expected. Bad habits of this kind spread rapidly, and it may not be long before the object of having the amount on the right is defeated by signatures on the left.

Some means must be found to guide signatures firmly to the right. This might be done by dotted lines, which attract signatures, but by far the better way would be to

eliminate the gap. That can be done only by making use of it for some other purpose. The gap could be used, for instance, to house a framed set of reminders in this style :

> TO ENSURE PAYMENT :
>
> Follow specimen and notes.
> Sign clearly.
> Make sure you have funds to cover.

But this might run the risk of overdoing advice, and there might be a better way to close the gap. First of all, let us see what is there already, before we consider introducing anything else.

The essentials of cheque design, apart from the spaces which the customer must complete, are the name and address of the paying banker, and a serial number to give the individual cheque a separate and certain identity. The certainty of the serial number is no longer valid, since numbers are repeated over and over again in the course of the years, but in practice the number does suffice for its original purpose. Nowadays, part of this number is being made to serve as a substitute for the payee's name, thus giving the one number a dual rôle.

Some years ago the growth in the use of cheques forced attention to the problem of sorting—and missorting. The result was the introduction of national numbers, which may have contributed something to faster sorting but entirely failed to reduce the number of missorts. For sorting purposes national numbers have been superseded, and are therefore redundant. They are, however, used as an identity code in waste sheets, and it is fair to ask whether they are really a successful substitute for names. Outside London the numbers consist of five figures, too many to be read at a glance with consistent accuracy, and it is a safe assumption that bank records are liberally sprinkled with false information. It only needs one digit mistyped in the speed of machine work for the true identity of the number to be lost. Daily mistakes of this kind may be few, but they are inseparable from the system, which is thereby suspect. It serves no worth-while purpose for banks to cling to obsolete ideas, and it is time that national numbers were scrapped.

But what is to be put in their place as identity code ? Any other combination of numbers, or of letters and numbers, which bear no obvious relationship to the name, would be subject to the same risks of mistyping and lost identity as are national numbers. Any symbols which are not recognisable as ' belonging ' to the branch concerned, demand an excess of concentration in their transfer to paper, and this degree of concentration does not always go with speed. There is a psychological aspect to this, and it should be borne in mind. It might be the best solution to go back to the old form of abbreviations, which could always be read however amateur they might be. The bank name, recognised more by the colour than the name, was represented by the initial letter. The only risk of error came from colour variations permitted for special cheques, and this is something that the banks could easily remedy. Individual ingenuity made sure of good shorthand to represent the branch, and the mistyping of one letter did not prevent identification.

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August, 1954

It would, of course, be better to standardise these abbreviations, and to show the approved form on the cheque itself. For example, Lloyds, Colmore Row, Birmingham, might be shown as L—CROW, and Lloyds, New Street, Birmingham, as L—NEWS. Abbreviations embody no guarantee that they will not be mistyped, but if mistakes do occur they may be recognisable as such on sight, or there will at least be some chance of tracing the error. This is a great improvement on national numbers.

The failure of national numbers to prevent missorts led to the invention of another method, which is now in general use. Unlike national numbers, sorting numbers are not to be found in one position and presenting the same appearance. Each bank has its own ideas on the subject, and the numbers take various forms and are printed in various places. What is consistent about them goes to the root of the system. Each number is capable of division into two parts, thus : 32—9. The first part represents a group of branches, and the same number is common to all branches in the group. The second part represents the individual branch, and each branch of a group has its own separate number. Sorting is done by two stages, one for each part. By breaking down sorting in this way, the work is more manageable, is faster, and as nearly free from missorts as any human system has a right to be.

Though the system does achieve speed and accuracy, success depends on sight reading for rapidity. It is very strange, therefore, that the sorting numbers are printed in a crowded part of the cheque, and the characters are fairly small. It would be much clearer to print the numbers larger, and to transfer them to the gap which has to be closed, so tidying-up the cheque in the process.

The use of sorting numbers to close the gap would give plenty of room to show a different kind of symbol. An improvement on the existing combinations of numbers would be a number within a distinctive frame. Sorters would recognise the two component parts of this design just that split-second faster to make the change worth while. The use of different frames would give banks the opportunity to bring back some of those pleasing heraldic devices of the private banks which at one time adorned our cheques. Every bank has enough of these devices for its own use as the first half of the sorting symbol. Here is a sample :

This could be printed as shown, or as a black shape with white figures inset, or as a shape in deep cheque colour with either black or white figures inset. The choice would be determined by the form which appeared most prominent and carried least risk of obliteration by crossing stamps.

This suggestion points the way to the proper function for the gap. It must be the code corner. Here is the place for any essential code devices, printed boldly to fill the space. Two only are needed now. First, the branch abbreviation ; second, the sorting symbol. With the symbol printed so that it just touches the crossing, signatures would be most tactfully forced to the right, and the appearance of cheques considerably improved.

EDUCATIONAL SECTION

Monthly Problem

The following problem has been submitted by a Barclays Bank reader in Stoke-on-Trent who seeks the assistance of readers to settle an argument on the subject in his own branch bank. Our award of one guinea has been sent for publication of this problem and a further prize of one guinea is offered to the reader who submits the most satisfactory solution. All replies should reach The Editor, *The Bankers' Magazine*, 85 & 86, London Wall, E.C.2, not later than August 13, 1954.

" Included in a credit received by Southtown Bank for the account of their customer Z is an item for £10 drawn by P on Northtown Bank and made payable to ' cash or order.' This document bears no endorsement and the cashier of Southtown Bank declines to accept it for collection, contending that it must first be endorsed by the drawer. Is the cashier justified in adopting this attitude ? "

JULY PROBLEM

This practical problem attracted many replies but few paid sufficient attention to the important principle involved. The real point at issue was whether the customer of Northtown Bank, who drew the cheque, was entitled to the benefit of the clearing house rules which grant the paying banker time up to the close of business on the day of presentation in which to pay or dishonour any cheque. The most reasoned but far from complete answer came from a Barclays Bank reader to whom the prize of one guinea has been sent.

The problem read as follows :—

" X, a valued customer of Southtown Bank, whilst visiting a supplier in an adjacent town pays into Northtown Bank for the credit of his account at Southtown Bank a cheque drawn on Northtown Bank for £125. Later in the same day, he returns to Southtown Bank and aks them to ascertain the fate of this cheque. They telephone Northtown Bank about 1 p.m. and enquire whether the given cheque has been paid. The Manager of Northtown Bank states that, although the drawer of the cheque is not short of funds, he cannot confirm payment until 3 p.m. in case any instructions to stop payment of the cheque may be received from the drawer. Is the Northtown Bank Manager correct in adopting this attitude ? Can Southtown Bank demand a definite answer ? Has the customer, X, any rights in the matter ? "

At the outset X in effect presents the cheque himself to the drawee bank and asks them to collect the proceeds for the credit of his account at Southtown Bank. At that stage he was perfectly entitled to enquire whether the cheque was paid and, if he had then made such enquiry, Northtown Bank would have had no alternative but to pay the cheque, assuming it to be in order and that adequate funds were available to meet it.

In the absence of such immediate enquiry Northtown Bank are in the dual position of collecting banker, acting as agents of Southtown Bank, and of paying banker. In

their latter capacity they then have until the following day in which to give notice of dishonour of the cheque (sec. 49 (12) Bills of Exchange Act, 1882) but in practice the cheque would be returned to Southtown Bank if unpaid, at the close of the day on which it was paid in.

But later in the same day X decides to enquire whether he cheque is paid. If he had applied personally to Northtown Bank it is difficult to see upon what grounds it could have refused to confirm payment. Instead, X asks his own bank to ascertain the fate of the cheque. Southtown Bank accordingly raise the enquiry as agents of their customer, who earlier presented the cheque to Northtown Bank, and as such it is submitted they are entitled to an immediate answer. Alternatively it might be said that they call upon their collecting agents to treat the cheque as a special presentation and to advise fate immediately. From this latter viewpoint they are also entitled to an immediate reply.

Upon what grounds, therefore, can Northtown Bank uphold its contention that payment must await until 3 p.m. in case any instructions to stop payment of the cheque may be received from the drawer? Apart from the clearing house rules introduced by bankers for their own convenience, cheques must be paid or dishonoured when they are presented for payment. Anyone who presents a cheque for payment is fully entitled by the Bills of Exchange Act to know the fate of the cheque upon presentation. There is nothing in the Act to suggest that the drawer of the cheque must be granted up to the close of business on the day of presentation in which to countermand payment if he so wishes. The right certainly cannot exist with an open cheque which undoubtedly has to be paid or dishonoured when presented over the counter of the drawee bank. Why should the right be given to the drawer merely because the cheque is crossed and has therefore to be presented through another bank?

It would appear here that Northtown Bank are trying to concede to the drawer of the cheque some benefit from the established clearing house rules. It by no means follows that because the paying banker has until the close of business in which to pay or return a cheque presented through the clearing, the drawer of the cheque has until the close of business in which to stop payment and the paying banker must defer to such alleged right when advice of fate is required before the close of business. It would obviously be impossible in modern banking to pay or dishonour immediately upon presentation all cheques presented through clearing channels. To facilitate the onerous work of payment, time is granted to the paying banker by the clearing house rules which apply between the members of the clearing house only and do not grant direct benefits or rights to their customers. As far as the drawer of a cheque is concerned the banker is subject to the statutes which afford no time in which to pay any cheque drawn upon the bank. When a collecting banker wishes to obtain immediate fate of any cheque it is possible, either direct or through the clearing house, to make a special presentation requiring immediate payment or dishonour of the cheque and then there can be no question of waiting until 3 p.m. in case the drawer decides to stop payment.

For these reasons it is contended that the Northtown Bank manager was mistaken in his impression of the position. Southtown Bank is entitled to an immediate reply from its agent which is both collecting and paying the same cheque.

The Lending Banker

Balance Sheets

(Continued)

XYZ Ltd.—A Correction

The value of goodwill £5,000 was unfortunately omitted from the total of assets in the *pro forma* balance sheet of the imaginary company, XYZ Ltd., published on page 502 of our May issue. The error is regretted and we are indebted to the many readers who drew attention to it.

The following corrections should therefore be made :—

Liabilities—Increase the trade creditors from £24,000 to £29,000, thereby making the total liabilities £90,000 instead of £85,000.

Assets— Include goodwill £5,000 in the sub-total of fixed assets, making the figure £33,000 instead of £28,000, and increase the asset total from £85,000 to £90,000.

The balance sheet will then be in order and acceptable as a basis to illustrate the banking approach.

The Going Concern Basis

The banker must first decide whether the current financial and trading position of the potential borrower is sound enough to warrant the required accommodation, and to this end there are several simple tests which can be applied at the outset. The balance sheet and trading and profit and loss figures of the customer usually furnish sufficient evidence to enable the banker to assess the position in relation to the basic principles of lending. The method of approach will necessarily vary between bankers, but the following simple tests can quickly be made by the trained mind without need for any detailed analysis of the figures. If the going concern aspect is satisfactory, the bank is dealing with a healthy borrower whose needs can then be discussed fully and the risk assessed by more exhaustive anaylsis of the balance sheet figures. On the other hand, if the going concern approach reveals weaknesses which are incapable of correction, there is little point in wasting time on further calculations. Although many of the tests are complementary and closely linked with each other, attempt will be made here for the sake of simplicity to treat each test as a separate feature.

Stake of Proprietors

How much capital have the proprietors invested in the business and what relation does it bear to the amount required from the bank? These questions are promptly solved from the first glance at the balance sheet. The capital must be clearly set out

therein, distinguishing in the case of a limited company between the rights of various shareholders and showing the authorised share capital as well as the share capital actually issued. Reserves accumulated by retention of profits in the business and any balance remaining on profit and loss account are then added to the capital, representing in total the stake which the proprietors have in their own venture. If a substantial reserve has been built up from past profits, it is an indication of prudent management. Instead of distributing profits up to the hilt, a proportion has been set aside wisely each year for future development and as a provision for lean years. If the profit and loss balance appears on the asset side of the balance sheet, the customer has incurred losses in the past and the warning to the bank is obvious. Capital has been lost? Why? The reason for the losses and the real prospects of recovery then demand full investigation. The capital in the business is reduced by the accumulated losses in profit and loss account. The reasoning is simple but the warning comes from the initial glance at the balance sheet figures. A quick survey shows whether the capital is reasonable in relation to the size of the business and the amount required from the bank. Further features follow automatically from this initial assessment, but next in order perhaps is the loan capital, if any.

Loan Capital—Secured Creditors

In many cases the proprietors are unable themselves to contribute sufficient capital and have resort to long term borrowing or mortgage finance. For our present purpose, all such long term borrowing may be looked upon as part of the capital resources of the business, admittedly only lent to the proprietors against security, but nevertheless available for a reasonably long period to finance, if need be, capital outlay and development. Any loan which is repayable upon demand or within less than say twelve months does not come within this category. It is fugitive money which may have to be repaid at any time and cannot be regarded for our purpose as the equivalent of capital.

The appearance of loan finance in the balance sheet provides the next warning to the banker. The customer has already borrowed from other sources. Why? How much has been borrowed, upon what terms, and what security has been given to the lender? Clearly, all these points must be considered and questions asked to amplify the brief picture given in the balance sheet. In most instances the other lenders will have obtained security on the assets of the bank customer and, if the bank is to contemplate granting unsecured accommodation, the prior rights of such secured creditors naturally weaken the bank's position. Unless such outside borrowing is relatively small, a bank will not generally be disposed to grant unsecured facilities. It is impossible to lay down a definite rule because the financial strength and needs vary widely according to the type and size of the business. A large public company may have a substantial debenture issue and yet borrow unsecured from its banker. A small partnership may obtain temporary bank accommodation for stock purchases notwithstanding the private mortgage already created by the partners on the firm's office building. But normally the presence of secured creditors in the balance sheet limits the capacity of the customer to borrow from the bank without providing suitable security. The total and general nature of

any secured creditors can usually be seen at a glance and their effect upon the position from the banking standpoint quickly appreciated.

Where any liability of a limited company is secured otherwise than the operation of law on any assets of the company, the balance sheet must disclose that the liability is so secured, although it is not necessary to specify in the balance sheet the actual assets charged as security. Moreover, where a company has power to reissue debentures which have been redeemed, appropriate details must be given in the balance sheet. Thus, in the case of a limited company customer a clear picture of any secured borrowing will be evident from the balance sheet. With other trading concerns it is usual for the auditors to insist that a secured liability is disclosed as a separate item and not hidden by inclusion with the trade creditors or other unsecured liabilities.

The banker, therefore, examines the liabilities for secured creditors and considers their impact on the position from two angles. Firstly, their size and prior rights in relation to the proposed banking advance and, secondly, their contribution to the effective capital resources of the borrower. The detailed information required to complete the analysis and the means of obtaining it can be left for discussion later. At this stage a general view is sufficient to satisfy the going concern approach.

Applying the above principles to the balance sheet of XYZ Ltd., it will be seen that the pure capital resources of this company amount to £28,000, comprising in addition to the issued capital of £17,000, a general reserve of £7,500 and a balance of £3,500 outstanding in profit and loss account. The company has also borrowed long term £5,000 against mortgage debentures, and £5,000 by mortgage of its factory, so that its effective capital resources are £38,000. Enquiry reveals that the unsecured loan of £2,000 was recently obtained from a friend of the chairman of the company. As it is repayable by the company at one month's notice, it is not equivalent to capital but must be regarded as a current liability. The fixed capital of XYZ Ltd. is therefore £38,000, and the fixed capital of any type of bank customer can normally be calculated in similar fashion from the initial survey of the customer's latest balance sheet.

Liquid Position

With very few exceptions, the fixed capital of any business should be sufficient to finance the acquisition of all the fixed assets, leaving a reasonable surplus available for working capital, thereby limiting the extent to which the business has to rely upon trade credit and day-to-day borrowing to carry its floating assets. The liquid position of the borrower varies according to the extent of the surplus of fixed capital over fixed assets, or, in other words, according to the extent of the working capital. The next test, therefore, is to assess the working capital or liquid position of the company. The total amount invested in the fixed assets of any concern can usually be seen without difficulty; and modern accounting practice is of great assistance in this respect because the fixed assets are normally scheduled together, with appropriate sub-totals. The Companies Act, 1948, requires a limited company to distinguish between its fixed and floating assets and to show how the fixed assets are valued and the amount of depreciation written-off. A similar

picture will usually be presented in the balance sheets of other trading units. Stray assets of a fixed or fictitious nature may, however, be set out apart from the main group of fixed assets, and it is always prudent to read through the entire assets before deciding how much fixed capital has been invested in fixed assets, and is not therefore available as working capital. For example, preliminary expenses or loans to directors or proprietors and investments in subsidiaries may be grouped with the floating assets in the balance sheet, but they will be regarded by the banker as fixed assets. In short, this test demands that the value of all asset items, other than those which are readily realisable in the ordinary course of the business of the potential borrower, should be classified as fixed assets in assessing the liquid position. Detailed calculations and the patient dissection of every item are not, however, necessary at this juncture. A general estimate or comparison is quite sufficient to disclose any inherent weakness.

Turning again to the balance sheet of XYZ Ltd., it will be seen that goodwill, plus the scheduled fixed assets, total £33,000, but £2,000 has also been swallowed up in trade investments. The total of fixed assets for our purpose is therefore £35,000. The value of the quoted investments can be ignored on the assumption that the shares are readily marketable and can be converted into cash as required. In point of fact they should be sold before resort to further borrowing. Thus, with fixed capital of £38,000, XYZ Ltd. has acquired fixed assets valued at £35,000, leaving a margin of only £3,000 available for working capital. This is a very small margin and it is obvious that the company has had to rely on extended credit to carry floating assets worth £55,000. The same result can be obtained by comparison between the totals of the floating assets and the current liabilities of the company, but the position cannot usually be seen so simply in this way, and demands more mental calculation with increased risk of error where the bank manager has to read a balance sheet just produced by a director who is discussing the requirements of the company. The current liabilities of XYZ Ltd. total £52,000, against floating assets (including the quoted investments) worth £55,000, providing the same surplus of £3,000 representing working capital, but this is not so obvious from the balance sheet as the more simple comparison originally made between fixed capital and fixed assets.

The liquid position, or lack of it, disclosed in the balance sheet may be affected by a fresh bank advance and this possibility has next to be considered. If the bank money or any part of it is to be used directly or indirectly to finance the purchase of fixed assets, the total fixed assets of the borrower will increase without any corresponding increase in the fixed capital, and the working capital will be reduced by the amount so spent. For example, if XYZ Ltd. wished to borrow a further £5,000 from the bank to buy new machinery, the current liabilities of the company would increase by £5,000, but the fixed capital would remain unchanged at £38,000, against fixed assets increased by £5,000 to £40,000, making a deficiency of £2,000 in working capital. In short, the company requires more capital and from this standpoint alone is unlikely to be able to increase its bank borrowing.

The degree to which fixed capital is frozen in fixed assets necessarily varies according to the type of business. A company engaged in production usually requires expensive buildings, plant and machinery compared with the value of its floating assets turning over in the production cycle, whilst a broker or factor of goods may rent an office and possess negligible fixed assets, using nearly all his capital and credit to carry stocks and debtors. Nevertheless, the principle remains that fixed capital should more than suffice to buy all the fixed assets. The greater the surplus available for working capital, the more liquid the position and the healthier the borrower from the banking standpoint. Whether any given surplus is sufficient to satisfy the banker's requirements, must depend upon the business of the borrower and many attendant features which cannot be discussed in these simple articles, but the dangers of lack of liquidity can be emphasised to advantage.

If all the initial fixed capital of any productive or retailing concern is spent on the acquisition of fixed assets, it must rely upon short term borrowing and trade credit to finance purchases of goods and cover labour costs and all overheads pending collection from debtors of the proceeds of goods sold. This complete reliance upon credit at the outset is a serious weakness. Delay in the collection of debtors or a reduction in sales may not permit the prompt payment of trade creditors. Whilst profits as they accumulate will provide working capital to reduce the strain, and payment of taxation due on the profits may be deferred, losses may instead be incurred in the early stages and the whole edifice will crumble if capital or loans cannot be obtained to meet pressing creditors. The dangers are greater where insufficient capital is available to acquire fixed assets and the concern relies on hire purchase finance, deferred credit and short term loans to complete their purchase. Current liabilities should at least be covered by floating assets, otherwise the risks of overtrading develop. The concern is trying to achieve too much on too little and any unexpected hitch in the smooth progress of production or the total of sales will soon precipitate a crisis, because there is no margin whatever available to meet the trade creditors. In our *pro forma* example, XYZ Ltd. is relying largely upon its heavy trade creditors and bank overdraft to carry its stocks and debtors. This may be dangerous.

The assessment of the liquid position of the borrower is therefore the vital test in the going concern approach to the balance sheet. It is impossible to lay down rules because each position has to be judged on its own merits, but the larger the surplus of fixed capital over fixed assets the healthier will be the financial strength of the borrower. An excess of fixed assets over fixed capital or the absence of working capital demands care and will normally indicate that any borrowing should be against approved security with adequate margin. In practice, it will be found that many smaller concerns suffer from lack of working capital, but advances can nevertheless be arranged on a satisfactory basis. Frequently it will be in the best interests of the customer to draw attention to the need for more capital and to decline to grant accommodation, however well it may appear to be secured, until he either brings in more capital or curtails the extent of his trading. The liquid position can sometimes be improved by the disposal of surplus fixed assets, or the arrangement of long term finance. On the other hand, it must not be forgotten that the liquid position deteriorates if losses are sustained, or excessive dividends are paid. Everything points to the need for liquidity if unsecured advances are to be considered.

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August, 1954

General Supporting Tests

If the business of the potential borrower is conducted in a satisfactory manner, it will be meeting its liabilities promptly as they fall due, collecting all its receipts regularly and carrying just sufficient stock to meet normal needs. These features can easily be verified from the balance sheet figures and trading accounts.

If the total of trade creditors in the balance sheet is compared with the total purchases shown in the trading account for the year, a rough estimate can be made of the period of credit taken by the customer. Where the total creditors appear to be excessive in relation to purchases, enquiries should be instigated to find out why there has been such a delay in payment. For example, if the purchases made by XYZ Ltd. in the year to April 30, 1954, were shown in the trading account at £360,000, the amount of £29,000 outstanding at the balance sheet date is reasonable, representing about one month's credit. On sales of only £120,000 the total of the creditors outstanding would be the equivalent of three months' credit, which normally would be excessive. In such event creditors may already be pressing.

Similarly, a comparison of the total debtors in the balance sheet with the sales figure for the trading period affords a simple guide to the speed of collection of debtors. If the customer from this calculation appears to be granting longer than normal trade credit, enquiries should be made. Perhaps the sales manager needs to increase pressure for collection, but there may be some debtors who are finding it difficult to meet their liability.

An unduly heavy stock held at the balance sheet date may indicate sales resistance or excessive stock piling beyond the capital resources of the customer. A rough check can be made by comparison with the sales figure in the trading account. Is the stock on hand heavy compared with normal sales? In a healthy business with satisfactory avenues of supply, stocks will be kept to the minimum, but it may sometimes be necessary to take into account the incidence of seasonal fluctuations on some types of business.

This rough check made from a speedy initial survey of the figures serves its purpose in confirming or otherwise the current financial and trading health of the business. A more detailed analysis has to be made of all these items under the gone concern heading to be discussed in the ensuing months.

Conclusion

If this general survey of the balance sheet figures discloses that the capital resources of the borrower are adequate in relation to the amount required, whilst the liquid position is reasonable having regard to the type of business and there are no unduly large secured creditors ranking before the bank, there is ample evidence that the customer is credit-worthy. A final assessment from the gone concern aspect has then to be made to enable the banker to estimate the risk. But where the going concern approach reveals an unsatisfactory liquid position or casts doubts upon the current financial or trading health of the customer, there will be no need to explore the matter further.

Note: The "Banker and Customer" articles will be resumed next month when the subject of "Collection of Cheques" (Negligence) will continue.

Book Review

The Recent Evolution of the Rôle of the Banks in the Economy. Lectures delivered at the Sixth International Banking Summer School, Sept., 1953. (Brussels : The Association Belge des Banques. Pp. 304. B.Fcs. 100.)

This excellent series of talks has wisely been preserved in print for the benefit of those unable to attend the School last year. For those English bankers who tend to take too much for granted, the opportunity to read the experiences of others under Controls and Directions should be salutary. Monsieur Camu's talk on " The Nature of Bank Deposits and their Incidence on the Work of the Banks " was particularly refreshing in reminding us that a monetary economy has given way to a credit economy, imposing far greater responsibilities on the banks than need have been shouldered 100 years ago when this Magazine was in its infancy. A Dutch speaker, Mr. G. M. Verryn Stuart, spoke of the " Competition between Public and Private Sectors " and showed how, on the Continent, the Postal-Cheque service competes with the deposit banks. (It has deposits of over 1,000 million florins in Holland, as compared with under 3,000 millions at the commercial banks.) " Profit Earning Capacity—American Banks " was ably dealt with by Professor Beckhart, and the interesting comment made that charges for servicing accounts, commissions, etc., amount to 7¼ per cent. of the total income of American banks. All banks in the States have the benefit of a simplified cost analysis plan, prepared by the American Bankers Association. Other lecturers dealt with World Economic Trends (R. S. Sayers) ; the Belgian Banking System (P. Bonvoisin) ; Transformation of Bank Credit (S. Schweizer) ; Effects on the Banks of the Post-War Evolution of Foreign Trade (Sir Cecil Ellerton) ; Exchange Control (F. Collin) ; Banks and Investments (M. Lorain) ; and State Intervention (J. Watteau). Limitations of space prevent us from doing full justice to the speakers ; they were uniformly lucid, and brought to their listeners the advantage of highly expert opinion in comprehensible terms. At a cost of rather less than 15*s*. the book is good value.

Banking Appointments, etc.

ALEXANDERS DISCOUNT COMPANY LIMITED.—Mr. Ivan William Kershaw Smith to be an Assistant Manager.

THE BANK OF AMERICA.—Mr. Roland Pierotti has been appointed Assistant to the President.

BANK OF NEW ZEALAND.—Mr. H. R. H. Chalmers, C.M.G., has been appointed Chairman of the Chief Board in New Zealand and Mr. John Grierson, C.B.E., has been appointed Deputy Chairman.

BARCLAYS BANK LIMITED

Lieut.-Colonel G. J. W. Turner, M.C., has been appointed a Member of the Birmingham Local Board.

Head Office :

Inspection Department	Mr. B. W. Devonshire, from Bournemouth, to be an Inspector.
Trustee Department.	Mr. J. T. Pagett, from Bournemouth, to be Manager of Leeds branch.
	Mr. R. Pocklington, from Leeds, to be Manager of Manchester branch.
Ammanford . . .	Mr. T. M. Jones, from Tonyrefail, to be Manager.
Bradford, 69, Market Street	Mr. J. P. Wood, of 10, Market Street, Bradford, to be Manager.
Crewe, Market Street .	Mr. N. T. L. Windsor, from Kendal and Bowness-on-Windermere, to be Manager.
Douglas, Isle of Man .	Mr. J. A. Butterworth to be Manager.
Epping	Mr. T. D. Lewis, from Braintree, to be Manager.
Epsom and Ashtead .	Mr. H. J. Paynter, from Windsor, L.H.O., to be Manager.
Great Bridge . . .	Mr. H. T. Price, from Hanley, to be Manager.
Kendal and Bowness-on-Windermere	Mr. E. Craven, from Chester, to be Manager.
Poole	Mr. R. H. King, from Southampton, Shirley, and Totton branches, to be Manager.
Sedgley and Coseley. .	Mr. R. P. Shenton, from Great Bridge, to be Manager.
Selsey	Mr. J. R. B. Harries, from Bournemouth, West Cliff, to be Manager.
Wantage	Mr. J. P. Baldwin, from High Street, Oxford, to be Manager.
Guildford	Mr. P. L. Foreman, from Reading L.H.O., to be Assistant Manager.

BARCLAYS BANK (DOMINION, COLONIAL AND OVERSEAS).—Mr. Johannes du Plessis Oosthuizen and Dr. Raymond William Wilcocks, Ph.D., D.C.L., have been appointed Members of the Cape Local Board. Mı. J. R. Thompson and Mr. A. F. Mallory to be Assistant General Managers.

BOWMAKER LIMITED.—Mr. R. A. Robertson has been appointed Deputy Chairman.

CLIVE DISCOUNT COMPANY LIMITED.—Mr. David Alexander Wighton, C.A., has been appointed Secretary.

DISTRICT BANK LIMITED

Burslem	Mr. A. S. Tennant, from Stoke-on-Trent, to be Manager.
Manchester and Salford, Swan Street	Mr. K. D. C. Davis to be Manager.
St. Annes-on-the-Sea .	Mr. J. N. Bunting, from Blackburn, to be Manager.

Lloyds Bank Limited

Head Office . . .	Mr. R. H. G. Marshall, Chief Controller, Advance Department, Head Office, to be an Assistant General Manager.
	Mr. C. H. Woolley, from Coventry, to be an Assistant General Manager.
Advance Department	Mr. A. T. J. Double, an Assistant Chief Controller, to be Chief Controller.
Legal Department .	Mr. G. M. Welsford, an Assistant Principal, to be Principal.
Machines Department	Mr. A. F. C. Kettley, of Machines Department, to be Sub-Manager.
Basingstoke . . .	Mr. E. A. Styles, from Head Office, to be Manager.
Clacton - on - Sea (also Frinton)	Mr. A. Lawson, from Mill Road, Cambridge, to be Manager.
Coventry (also Cheylesmore)	Mr. C. R. Vincent, from Advance Department, Head Office, to be Manager.
Cowes, Isle of Wight .	Mr. D. W. Lambie, from Plymouth, to be Manager.
Devizes	Mr. N. B. Coston, from Head Office, to be Manager.
Dursley	Mr. L. T. Herring, from Wotton-under-Edge, to be Manager.
Hanwell, W. . . .	Mr. L. H. Watford, from Brixton, S.W., to be Manager.
Leeds	Mr. G. H. Allport, from 39 Threadneedle Street, E.C., to be Sub-Manager.
Leytonstone, E. . .	Mr. R. P. Reggiori, from 40, Victoria Street, S.W., to be Manager.
Ramsgate	Mr. J. H. Hancock, from Advance Department, Head Office, to be Manager.
Watlington . . .	Mr. B. F. C. Hall, from Andover, to be Manager.
Westbury	Mr. W. J. Chard, from Somerton, to be Manager.
West Cliff, Bournemouth	Mr. H. C. Galton, from Christchurch, to be Manager.

Martins Bank Limited

London, 68, Lombard Street	Mr. W. S. Brown, from Middlesbrough, to be an Assistant Manager.
London, Hanover Square	Mr. J. Wilson, from Lombard Street, to be Manager.

Midland Bank Limited

Head Office . . .	Mr. H. W. Roberts, of North Street, Brighton, to be a Superintendent of Branches.
London : King's Cross .	Mr. G. H. Smith, of Minories, to be Manager.
London : Streatham (Mitcham Lane)	Mr. F. J. Kibble, of Putney, to be Manager.
Bath : Southgate Street .	Mr. N. G. Godwin, of Tetbury, to be Manager.
Blyth, Northumberland .	Mr. E. W. N. Dargavel, of North Shields, to be Manager.
Brighton : North Street .	Mr. T. B. Meays, of Southgate Street, Bath, to be Assistant Manager.
Manchester : Chester Road	Mr. F. X. Erdozain to be Manager.
Stretford	Mr. R. J. Wilkie, of Chester Road, Manchester, to be Manager.
Tetbury	Mr. R. R. Lannell to be Manager.

Midland Bank Executor and Trustee Company Limited

London : Pall Mall . .	Mr. W. I. Gubbins, of Bournemouth, to be Assistant Manager.
Croydon	Mr. R. G. Butler, of Pall Mall, to be Manager.

National Provincial Bank Limited.

Mr. J. H. Farmer and Mr. Frank Poat have been appointed Local Directors for Guernsey.

Cheltenham . . .	Mr. R. F. Norden, from Ruislip, to be Manager ; *vice* Mr. C. P. B. South, who has been attached to Head Office Relief Staff with his present status.
North Harrow . . .	Mr. R. H. Knight, from Twickenham, to be Manager.

Cosham, Portsmouth	Mr. W. L. Madgen to be Manager.
Ruislip	Mr. J. G. Kershaw, from North Harrow, to be Manager.
Sheffield Bank Office, Sheffield	Mr. W. A. Daglish to be Assistant Manager.
Watford	Mr. A. T. Hughes, from Windsor, to be Manager.
Whitley Bay	Mr. H. C. Butterfield, from Silsden, to be Manager.
Windsor	Mr. L. H. John, from Cardiff Docks, to be Manager.
Woodstock	(Shortly to be constituted a full branch.) Mr. J. Routledge, from Ilkley, to be Manager.
Wrexham	Mr. W. T. Hughes, from Holyhead, to be Manager.
To be Inspectors of Branches	Mr. F. J. D. Barnham, from Baker Street ; Mr. J. G. Page, from Cromwell Road.

ROYAL BANK OF SCOTLAND

Mr. C. Augustus Carlow has resigned as an Ordinary Director of the Bank.

Giffnock	Mr. John Carrick, from Kilwinning, to be Manager.
Partick, Glasgow	Mr. J. M. Kellie, from Giffnock, to be Manager.

WESTMINSTER BANK LIMITED

Head Office (41, Lothbury, E.C.2)	Mr. D. T. Holding, to be an Inspector of Branches ; Mr. L. V. S. Green to be a Controller's Assistant.
New York Representative	Mr. A. E. Cooper, from Lombard Street, to be New York Representative.
Chippenham	Mr. A. E. G. Brain to be Manager.
Crowborough	Mr. G. H. Martin, from Silverhill, to be Manager.
Finsbury Park	Mr. E. C. G. M. Newton, T.D., from Camden Town, to be Manager.
Petersfield	Mr. G. Stokoe, from Guildford, to be Manager.
Poole	Mr. F. E. Maynard, from Alton, to be Manager.
Runcorn	Mr. G. Barnes, from Simm's Cross, Widnes, to be Manager.
Shepton Mallet	Mr. M. Giddings, from Chippenham, to be Manager.
Silverhill	Mr. C. D. Harding, from Hastings, to be Manager.
Simm's Cross, Widnes	Mr. J. I. Cleworth, from Liverpool, to be Manager.
Warminster	Mr. G. W. Nicholls to be Manager.
West Bromwich	Mr. W. G. Field, from Digbeth, to be Manager.

New Branches, etc.

AUSTRALIA AND NEW ZEALAND BANK LIMITED.—The agency at 93, Talbragar Street, Dubbo, New South Wales, has been converted to a branch which will be known as Northern Branch, Dubbo ; the existing branch at Dubbo will be known in future as 151, Macquarie Street, Dubbo. The agency at Panmure, Auckland, New Zealand, has been converted to a branch with temporary premises on the Panmure-Howick Highway.

BANK OF NEW ZEALAND.—The notification in our July issue that a branch has been opened at Customs Street East, Auckland, should read Customs Street. This branch takes over the business of the former agency which was at Customs Street East, Auckland.

THE COMMERCIAL BANK OF AUSTRALIA LIMITED.—At Dubbo, New South Wales.

LLOYDS BANK LIMITED.—at Market Place, Market Weighton, York ; at Sandhurst, Royal Military Academy (sub to 6, Pall Mall, S.W.1) ; at Barnetby (sub to Brigg).

MARTINS BANK LIMITED.—At 1, Cotton Exchange Buildings, Liverpool, 3 ; at 16/18, Brompton Road, London, S.W.1.

MIDLAND BANK EXECUTOR AND TRUSTEE CO. LIMITED.—At 139, North End, Croydon.

THE STANDARD BANK OF SOUTH AFRICA.—At Rusape, Southern Rhodesia.

WESTMINSTER BANK LIMITED.—At Poole.

Monetary Review

EVENTS in Lombard Street last month provided a fresh example of the narrow margin which exists between monetary ease and stringency. Although there was no apparent reason for the change, the relatively easy conditions prevailing for practically the whole of the previous month gave place to a pronounced tendency to credit shortages. As frequently occurs at the end of the half-year, credit tightened up suddenly right at the end of June, partly under the influence of window dressing by " outside " banks, but also because the clearing banks, although they do not indulge in window dressing operations, were also calling in loans. Rates as high as 3 per cent. were paid for new overnight loans, and several of the discount houses had to borrow a relatively small amount from the Bank of England for a week on the usual terms.

	Floating Money	Market Rates—Bank Bills: Three Months	Four Months	Six Months	Bank Rate	Date of last Alteration
	%	%	%	%	%	
June 21, 1954 . .	$1\frac{1}{4}$–$1\frac{5}{8}$	$1\frac{5}{8}$	$1\frac{11}{16}$	$1\frac{13}{16}$	3	May 13, 1954
July 22, 1954 . .	$1\frac{1}{4}$–$1\frac{5}{8}$	$1\frac{19}{32}$	$1\frac{5}{8}$	$1\frac{3}{4}$	3	
Movement . . .	--	$-\frac{1}{32}$	$-\frac{1}{16}$	$-\frac{1}{16}$	—	

Difficult conditions at the end of June seemed to set the tone of the market for several days. Although there was no further bank borrowing, fairly heavy assistance had to be given to the discount houses in the form of official bill purchases. The situation appeared to be easing after a week or so, but tightened up again subsequently, and thereafter credit supplies varied considerably from day to day, but generally fell short of market requirements.

In spite of the poor supply of credit, discount rates were reduced during the month, following the decline in the average allotment rate for Treasury bills on July 9. The lower rate was reflected in a reduction of $\frac{1}{32}$ in the discount houses' rate for discounting two and three months' commercial bills, with slightly larger cuts in longer-dated paper, while the banks were taking September and October Treasury bills from the market at $1\frac{17}{32}$ per cent. against $1\frac{9}{16}$ per cent. previously.

Treasury bill tenders during the month were remarkable for wide fluctuations in the total of applications from week to week, and in the volume of bills secured by the discount market. After falling below £400 million for two successive weeks, applications rose on July 16 to over £433 million, which is not far below the record total of £437·5 million reached at the last tender of April. This sudden increase was attributed not only to heavy " official " applications for the bills, but to the large volume of tenders put in by other quarters outside the market. After reducing their tender price at the last offering in June, in anticipation of the stringency at the end of the half-year, the discount houses raised their bid again on July 9, in the hope of replacing the large volume of bills previously sold owing to monetary stringency. At this tender they secured a percentage allotment of 65, but in the following week, tendering at the same price, they received only 34 per cent. of their applications, partly because of the smaller volume of bills available, but also because of increased competition from non-market quarters.

TREASURY BILLS

Date	*Bills Offered (000's omitted) £	Bills Applied for (000's omitted) £	Average Rate % s.	d.
1953				
Dec. 4	250,000	273,955	41	11·72
„ 11	250,000	368,480	41	11·98
„ 18	250,000	308,445	42	0·62
„ 24	250,000	338,860	42	7·34
1954				
Jan. 1	250,000	316,625	42	8·29
„ 8	230,000	319,340	42	7·90
„ 15	220,000†	335,490	42	7·72
„ 22	210,000	343,815	41	11·78
Jan. 29	220,000	381,975	41	11·04
Feb. 5	220,000	386,430	41	3·68
„ 12	230,000	369,925	41	4·04
„ 19	240,000	398,900	41	3,56
„ 26	250,000	400,765	41	3·37
Mar. 5	270,000	412,905	41	3·83
„ 12	270,000	414,560	42	2·61
„ 19	260,000	365,575	42	3·64
„ 26	270,000	405,205	42	3·62
Apr. 2	270,000	399,040	42	4·01
„ 9	270,000	392,195	42	4·05
„ 15	230,000	417,175	41	7·41
„ 23	230,000	415,375	41	7·34
„ 30	230,000	437,545	40	11·36
May 7	240,000	405,615	40	10·84
„ 14	260,000	391,695	34	1·75
„ 21	270,000	400,655	34	3·24
„ 27	270,000	426,825	34	3·33
June 4	270,000‡	414,325	32	11·61
„ 11	260,000†	418,325	32	3·56
„ 18	260,000†	400,440	31	7·57
„ 25	260,000	426,015	32	1·48
July 2	270,000	383,955	32	3·41
„ 9	270,000‡	396,195	31	3·09
„ 16	240,000	433,145	31	2·27
„ 23	230,000	423,055	31	2.52

*To be taken up during following week. ‡ Under-allotted by £20 million. Under-allotted by £10 million.

The volume of bills allotted each week was fairly in line with the corresponding maturities. During the month as a whole, the Treasury was not under the necessity of borrowing on Treasury bills. This was in marked contrast with experience in July last year, when the " tender " Treasury bill issue was increased by some £80 million.

With the approach of the holiday season, the Bank of England note circulation continued to reflect the influence of active trade and the further wage increases granted during the past year. The active note issue continued to establish fresh high records practically every week, and the expansion was greater than the corresponding increase a year ago. Although the fiduciary issue had been raised at the beginning of June by £50 million, this addition had already proved inadequate before the middle of July, when the issue was raised by a further £50 million to a new high figure of £1,725 million. Judged on last year's experience, the latest sanction should suffice to cover the peak currency demand at the beginning of August.

The Bank return made up to June 30 showed bankers balances at the unusually high figure of £307·7 million, a rise on the week of £24·2 million. This abrupt change, which was evidently due to the fact that the return was compiled on the same date as the banks made up their half-yearly statements, was reversed in the following week, when bankers' balances were only £274 million.

Stock markets continued to give a good account of themselves, with interest centred mainly on British Government stocks and industrial shares. Turnover in the gilt-edged market was reported to be quite exceptional at times, heavy buying, particularly of the longer-dated and undated stocks, being attracted by the terms of the scheme for dealing with the November maturity of 1¾ per cent. Serial funding stock. A considerable part

of the activity consisted of purchases of this stock as a means of acquiring the 2½ per cent. Exchequer stock 1963–64 or the 3½ per cent. Funding stock 1999–2004 offered in exchange for it. The extreme " bullishness " of the market was strengthened by the announcement of the reduction from 1¼ to 1 per cent. in the interest rate on tax reserve certificates, and the month's events led to some talk at one time of the likelihood of a further Bank rate cut in the near future, and even of the possibility of a conversion offer within the next year or so to holders of the 3½ per cent. War loan. Activity in the gilt-edged market slackened somewhat as the month progressed, and price movements were less buoyant.

Although the leading industrial shares took their tone partly from the strength of Government stocks, they appeared to have ample vigour of their own. The general boom-like conditions in this market were attributed not only to prospective or actual announcements of higher dividends or of capitalisation schemes, but also to the evident activity of industry and trade and to the gradual abandonment of restrictions on private enterprise. The main interest last month was concentrated first on one section of the market and then on another, but the net effect was to raise prices substantially for the greater part of the month. Motor manufacturing shares, aircrafts, stores and electrical equipments were among those to come in for particular attention. The relaxation of hire purchase restrictions brought into the limelight the shares of both trading and finance companies concerned with this class of business. Towards the end of the month, however, the tone of the industrial market changed, business falling off and prices turning dull. The absence of any real progress at the Geneva conference was held responsible for the set-back, and prices resumed their upward course after the Geneva settlement.

In the bank share market, Westminster £4 shares £1 paid were marked up more than 5*s.* to 91*s.* by way of adjustment to dividends in prospect in the shares' new form of "B" shares 25*s.* paid, under the capital scheme discussed in a separate note on page 96.

The activity of business, and particularly the absorptive capacity of the gilt-edged market, provided a favourable background for new issues, the largest of which were in the investment category. They included the offer for sale of £5 million of 3½ per cent. stock 1969–74 of the International Bank for Reconstruction and Development at a price of 98 per cent. Another important issue was the £10 million loan for the new Federation of Rhodesia and Nyasaland, which took the form of 4 per cent. stock 1972–74, offered at 97½. Several important industrial issues of new fixed-interest securities also made their appearance, the most important being 3 million 5½ per cent. cumulative preference shares of £1 each in Gallaher Ltd., the tobacco manufacturers, which were offered at 21*s.* 9*d.* and 1 million Firth Cleveland £1 6 per cent. cumulative preference shares at 21*s.* 6*d.*

The public response to the offer of 10 million Stewarts and Lloyds ordinary shares was disappointing, only 5½ million shares being applied for, and the shares were quoted at a discount of about 7½*d.* when dealings commenced. Owing partly to the buoyancy of the industrial share market at the time, however, this discount was soon converted into a premium on the issue price of 35*s.* a share. Several placings of new industrial capital were carried through during the month, and, as usual in recent times, numerous capitalisation schemes were announced by industrial undertakings.

Stock Exchange Values

STOCK EXCHANGE quotations advanced strongly during the greater part of last month, and the volume of business reached very large proportions on some days. British Government stocks attracted a large share of the total business, activity being stimulated by the conversion offer made to holders of the $1\frac{3}{4}$ per cent. Serial Funding stock due for repayment in November. The terms of the offer, including an exchange into a long-dated loan, brought in buyers of existing stocks in this category, and the demand for gilt-edged stocks in general spread to other investment securities including Dominion stocks and Home corporation and county issues. As usual, part of the demand for first-class securities was of a speculative character, and profit-taking later in the month gave the market a rather irregular appearance, with turnover at a reduced level. Industrial shares went ahead strongly during the first three weeks of July, under the influence of good profit and dividend statements, and expectations of further encouraging company news in future. Subsequently, however, the market met with a good deal of profit taking, and the general tone turned dull. The set-back was said to be due to the uncertain international outlook, and quotations recovered after the Geneva agreement.

Aggregate value of 365 representative securities on June 15, 1954	£6,715,972,000
„ „ „ 365 „ „ „ July 15, 1954	£6,847,203,000
Increase .	£131,231,000

OUR INDEX NUMBER

Below will be found the movements in the index number of the security values of our list of 365 representative stocks from the year 1929 down to the present time. Limitations of space have made it necessary to omit each month our lengthy list of variations in the fixed and variable dividend securities over a period of years, but once a year (in the January issue) we give the complete list of the index numbers of those stocks. The total index number for July, was 123·3, as compared with 120·9 for the previous month. The index number of the fixed interest group now stands at 118·5, as compared with 116·0 for the previous month, and in the variable dividend list the index number is 133·1, compared with 131·1 for the previous month.

Security Values Index Number
(*December, 1921 = 100)

Year	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1929 .	129·6	128·1	127·3	127·3	125·6	125·4	126·5	127·0	127·2	126·1	120·9	121·0
1930 .	121·7	121·8	123·3	124·2	121·9	119·0	120·3	118·1	119·3	117·6	116·8	114·4
1931 .	114·9	112·6	114·1	111·9	108·0	108·6	109·3	104·3	99·0	103·1	103·1	98·5
1932 .	110·9	101·7	105·5	102·1	101·8	100·6	105·5	108·4	111·4	112·5	109·6	109·4
1933 .	110·2	111·1	111·2	112·4	112·5	114·3	115·9	117·6	118·7	118·4	117·6	117·6
1934 .	120·4	121·5	122·9	123·8	122·6	121·8	122·5	122·3	122·8	123·6	126·9	126·5
1935 .	128·5	125·8	123·7	124·9	125·8	125·5	126·4	125·8	120·6	121·3	125·5	126·4
1936 .	128·1	129·6	128·6	130·2	129·1	128·8	129·4	131·0	131·7	133·9	133·8	133·1
1937 .	132·6	129·7	128·4	128·2	127·3	125·6	125·1	125·0	123·0	121·6	121·0	121·2
1938 .	121·6	120·7	115·9	119·2	117·0	116·3	118·9	117·7	113·8	114·2	114·4	112·4
1939 .	112·0	111·7	110·0	107·1	110·0	109·8	108·8	107·4	103·3	106·3	108·7	108·7
1940 .	112·2	114·3	114·6	114·1	110·4	104·6	106·0	107·8	108·2	110·0	111·3	112·0
1941 .	113·6	112·8	112·9	112·4	113·3	113·5	115·6	116·0	117·5	117·1	117·8	117·1
1942 .	118·5	117·0	117·0	117·3	117·2	117·5	118·1	118·2	119·0	120·4	129·0	120·6
1943 .	122·7	122·5	122·7	123·3	122·3	122·1	123·3	123·0	123·1	123·4	122·6	122·7
1944 .	123·3	123·8	123·5	123·5	123·8	124·5	125·0	125·1	124·6	124·9	125·3	125·5
1945 .	126·1	126·1	126·3	127·1	126·6	126·4	127·1	126·1	126·3	127·0	127·2	126·8
1946 .	128·3	128·9	128·3	130·1	131·7	132·1	132·2	131·4	130·4	130·0	132·1	133·2
1947 .	133·8	132·3	132·2	131·3	132·0	131·3	131·0	125·2	123·7	125·0	125·6	127·9
1948 .	128·8	127·6	126·8	127·5	128·2	128·0	126·9	127·0	127·1	127·3	127·6	127·5
1949 .	128·0	128·1	126·7	126·6	126·5	124·1	122·1	119·8	119·9	120·3	117·7	119·8
1950 .	119·1	119·0	118·8	119·5	119·7	121·4	119·9	120·0	122·3	123·8	124·0	122·2
1951 .	123·6	123·6	122·8	122·4	123·0	122·3	121·1	120·5	120·8	121·3	119·7	115·9
1952 .	115·4	114·7	111·6	112·9	113·1	110·2	110·3	110·7	113·7	112·6	112·0	113·0
1953 .	113·5	113·9	114·9	115·1	114·6	115·2	114·9	115·6	115·7	116·9	118·1	117·5
1954 .	117·8	118·9	119·2	120·7	121.5	120·9	123·3					

* Date when Securities revised.

TABLE—SHOWING VALUES OF SECURITIES AND THEIR AGGREGATE VARIATION DURING THE PAST MONTH

[ooo's omitted]

Nominal Amount (Par Value)	Department, containing	Market Values June 15, 1954	Market Values July 15, 1954	Change on the Month	Increase or Decrease Per Cent.
£		£	£	£	
3,566,600	10 British and Indian Funds .	3,280,922	3,374,523	+ 93,601	+ 2·9
58,950	9 Corporation (U.K.) Stocks .	50,470	50,773	+ 303	+ 0·6
83,550	8 Colonial Government Stocks .	77,195	77,584	+ 389	+ 0·5
22,300	8 Corporation Stocks (Colonial) .	19,695	19,672	— 23	— 0·1
21,050	7 Do. do. (Foreign) .	18,392	18,492	+ 100	+ 0·5
598,230	26 Foreign Government Stocks .	213,795	214,625	+ 830	+ 0·4
254,655	6 British Railway Debenture Stks.	‡301,278	‡301,278	..	..
310,765	6 Do. do. Preference Stks.	‡247,161	‡247,161	..	..
132,000	7 United States Bonds (Gold) † .	†141,662	†141,662	..	..
5,048,100	87 Fixed Interest Stocks . . .	4,350,570	4,445,770	+ 95,200	+ 2·2
315,325	13 British Railway Ordinary Stocks	‡72,406	‡72,406	..	..
18,900	5 Indian Railway Stocks . .	26,617	26,621	+ 4	..
88,350	5 Colonial Railways . .	120,949	121,092	+ 143	+ 0·1
474,000	11 United States Railway Shares .	292,936	293,646	+ 710	+ 0·2
141,200	20 Foreign Railways . . .	27,828	27,768	— 60	— 0·2
59,685	13 British Bank Shares . . .	204,992	209,355	+ 4,363	+ 2·1
43,000	18 Colonial and Foreign Bank Shs.	69,792	70,030	+ 238	+ 0·3
18,121	10 Brewery Stocks	65,669	65,687	+ 18	+ 0·0
17,750	7 Canals and Docks . . .	21,783	21,777	— 6	— 0·0
146,916	38 Commercial and Industrial Shs.	579,616	595,907	+ 16,291	+ 2·8
9,537	8 Electric Lighting and Power .	‡21,592	‡21,592	..	..
15,100	9 Financial, Land and Investment Shares	30,683	31,238	+ 555	+ 1·8
30,680	7 Gas Stocks	‡27,895	‡27,895	..	..
9,343	17 Insurance Shares . . .	235,108	242,544	+ 7,436	+ 3·2
58,294	14 Iron, Coal and Steel Shares .	100,223	100,471	+ 248	+ 0·2
3,100	5 Nitrate Shares	627	641	+ 14	+ 2·3
42,649	10 Oil Shares	193,814	194,468	+ 654	+ 0·3
5,402	9 Rubber Shares	2,253	2,311	+ 58	+ 2·6
17,456	5 Shipping Shares	27,762	27,828	+ 66	+ 0·2
1,890	6 Tea Shares	5,428	5,473	+ 45	+ 0·8
20,808	9 Telegraphs and Telephones .	56,839	56,839	..	..
27,716	7 Tramways and Omnibus . .	44,692	44,793	+ 101	+ 0·2
29,517	19 South African Mines . . .	87,674	87,126	— 548	— 0·6
28,735	6 Copper Mining Shares . .	38,380	43,931	+ 5,551	+ 14·5
11,859	7 Miscellaneous Mining Shares .	9,844	9,994	+ 150	+ 1·5
1,635,333	278 Variable Dividend Securities .	2,365,402	2,401,433	+ 36,031	+ 1·5
6,683,433	365 Grand totals .	6,715,972	6,847,203	+ 131,231	+ 2·0

† Designation of gold bonds retained though title apparently unwarranted.
‡ Entered at vesting prices.

BANKERS' MAGAZINE SHARE LIST

BANKS

Last Dividend Actual	Total for Year	Total for Previous Year	NAME	Quotations June 15, 1954	Quotation July 15, 1954
1/6	—	5/	Alexanders Discount Co. Ltd. (£2, with £1 paid)	5⅜	5⅜xd
1/2⅜	2/4¾	2/4⅜	Do. do. 6% Cum. Pref. (£2)	47/6	47/6xd
9⅜d.	—	2/	Australia and New Zealand Bank (£2, with £1 paid)	37/6xd	39/6
1/‡	—	1/9¾‡	Bank of Adelaide Stock	30/	30/
5/7½	8/	8/	Bank of British West Africa Ltd. (£10, with £4 paid)	7¾	8
£9	£15	£14	Bank of Ireland Stock	—	—
4/	6/	6/	Bank of London & S. America Ltd. Stock	5	5¼
30 cents	—	$1·40	Bank of Montreal (*London Register*) ($10)	£16	£17
9/‡	—	34/‡	Bank of New South Wales (*London Register*) (£20)	31¼	31¼
40 cents	—	$1·80	Bank of Nova Scotia (*London Register*) ($10)	£16¼	£17
1/4⅜	2/7½	2/4⅜	Bank of Scotland (Governor & Co. of) Stock	60/	61/
9⅜d.	—	1/7½	Barclays Bank (Dom., Col. & Overseas) "A" Stock	39/xd	43/
1/	—	—	Barclays Bank Ltd., Ord. Stock	45/	48/6xd
1/1½	1/1½	—	British Bank of The Middle East (£10)	25/	24/
30 cents	—	$1·20	Canadian Bank of Commerce (*London Register*) ($10)	£13½	£15
1/4⅜	2/9⅜	16/**	Chartered Bank of India, Australia & China, Stock	42/6	43/
6d.‡	—	1/‡	Commercial Bank of Australia Ltd. Ordinary (*London Register*) (10/)	16/6	17/
2‡	—	4‡	Commercial Bank of Australia Ltd. 4% Pref. (*London Register*) (£10)	6	6
5·76d.	—	11·52d.	Commercial Bank of Scotland Ltd., "A" Shares (£1, with 6/ paid)	22/	23/6
1/	—	2/	Commercial Bank of Scotland Ltd., "B" Shares (£1)	42/6	44/
2/	—	4/	District Bank Ltd., "A" Shares (£5, with £1 paid)	91/6	90/6xd
1/	—	2/	Do. do. "B" Shares (£1)	42/	44/xd
2/	—	4/	Do. do. "C" Shares (£1)	92/	93/xd
5/	8/	7/	Eastern Bank Ltd. (£10, with £5 paid)	8⅜	8⅜
2/	—	7/6	English, Scottish & Australian Bank Ltd. (£5, with £3 paid)	5⅞	6⅛
6/3	8/9	7/6	Hambros Bank Ltd. (£10, with £2½ paid)	8¼	8¼
7½d.	1/2⅜	1/2⅜	Do. do. "A" Shares (£1)	22/6	22/6
£3	£5	£5	Hongkong & Shanghai Banking Corp. (*London Register*) ($125)	£93½	£93½
4/	4/	4/	Ionian Bank Ltd. (£5)	67/6	65/
1/4½	—	2/9	Lloyds Bank Ltd., "A" Shares (£5, with £1 paid)	61/	65/xd
6d.	—	1/	Do. do. "B" Stock (£1)	24/	23/6xd
4/4½	—	8/9	Martins Bank Ltd. (£20, with £2½ paid)	9⅞	10⅛xd
1/9	—	3/6	Do. do. (£1)	82/	84/xd
17/6	35/	35/	Mercantile Bank of India Ltd., "A" Shares (£25, with £12½ pd.)	28½	29
17/6	35/	35/	Do. do. do. "B" Shares (£25, with £12½ pd.)	28½	29
7/	14/	14/	Do. do. do. "C" Shares (£5)	11	11
4/	8/	8/	Midland Bank Ltd. (£12, with £2½ paid)	9⅛	9⅞
4/	8/	8/	Do. do. (£2½)	9⅛	9⅞
1/7½	3/2⅝	3/2⅝	Do. do. (£1)	78/	83/6
1/2⅜	2/2⅜	2/2⅜	National Bank Ltd. (£5, with £1 paid)	40/	40/
160psts	200psts	200psts	National Bank of Egypt (Bearer) (£E10)	22½	24½
20/	40/	40/	National Bank of India Ltd. (£1, with 12/6 paid)	27/6	26/6
3/6	5/	4/	National Bank of New Zealand Ltd. (£7½, with £2½ paid)	86/6	91/6
1/	2/	2/	National Discount Co. Ltd., "A" Stock	41/	42/
1/	2/	2/	Do. do. "B" Stock	48/	48/
1/2·28	—	2/4·56	National Provincial Bank Ltd., "A" Shares (£5, with 14/ paid)	54/	56/xd
1/8⅜	—	3/4⅜	Do. do. do. "B" Shares (£5, with £1 paid)	78/6	79/6xd
1/8⅜	—	3/4⅜	Do. do. do. Shares (£1)	82/	83/xd
8/	8/	8/	Ottoman Bank (Bearer) (£20, with £10 paid)	9⅛	8
35 cents	—	$1·40	Royal Bank of Canada ($10)	£16⅜	£15⅞
1/9⅝	—	3/7⅛	Royal Bank of Scotland, Stock	84/	89/
1/3	2/3	2/3	Standard Bank of South Africa Ltd. (£2, with £1 paid)	39/6	42/
1/	—	2/	Union Discount Co. of London, Ltd., Stock	49/	50/xd
1/9⅜	3/7½	3/7½	Westminster Bank Ltd. (£4, with £1 paid)	84/6	90/6
1/3	2/6	2/6	Do. do. Stock	56/6	61/
			*Bank-Insurance Units	25/4½	26/10
			*Bank-Units	25/7½	26/9⅜
			*Scottish Bank I. & I. T. Units (Scotbits)	33/4½	34/4½
			*Investment-Trust-Units	33/1½	34/1½

* These prices include stamp duty and commission.
† Free of Income Tax.
‡ Australian currency.
‖ None on offer.
xd.—Ex Dividend.
** For £5 stock. Now quoted in £1 units.

BANKERS' MAGAZINE SHARE LIST

INSURANCE

Last Dividend Actual	Total for Year	Total for Previous Year	NAME	Quotations June 15, 1954	Quotations July 15, 1954
14/	24/	22/	Alliance Assurance Co. Ltd. (£20, with £2½ paid)	29½	32
14/	24/	22/	Do. do. New Shares (£1)	30	32¾
8/	15/	15/	Atlas Assurance Co. Ltd. (£1, with 10/ paid)	—	8⅛
6/†	7/6†	11/†	Britannic Assurance Co. Ltd., Ord. Stock	5½	6
2½	5	5	Do. do. 5% tax-free, Cum. Pref. Stock	33/xd	33/
2/6	—	4/6	Caledonian Insurance Co. (£1, with 10/ paid)	6	6⅞
6/6	11/6	10/	Commercial Union Assurance Co. Ltd., Stock	71/3	77/6
3/3	5/	4/6	Eagle Star Insurance Co. Ltd., Ordinary (10/)	111/3	117/6
3/3	5/	4/6	Do. do. Ordinary (£3, with 10/ paid)	103/9	106/3
4½d.	9½d.	9½d.	Do. do. 4% Cum. Pref. (£1)	17/6	18/
4½d.	9½d.	9½d.	Do. do. 4% 2nd Cum. Pref. (£1)	17/6	18/
1/	1/7½	1/7½	Economic Insurance Co. Ltd. (£1, with 5/ paid)	29/6	31/3
3/	—	4/6	Employers' Liability Assurance Corp. Ltd.	96/3	115/
2/6†	—	5/†	Equity & Law Life Assurance Soc. (£5, with £1½ paid)	13½	14½xd
4/	6/	6/	General Accident, Fire & Life Assurance Corp., Ord. (£1)	7⅝	9½
6d.	1/	1/	General Accident, Fire & Life Assurance Corp., Cum. 5% Pref. (£1)	22/	22/6
3/6	6/	5/	Guardian Assurance Co. Ltd., Ord. (£1)	7½	9⅝
2/	—	4/	Do. do. do. Pref. (£5% non-Cum.) (£4)	82/6	83/6
4/3	6/9	6/9	Legal & General Assurance Soc. Ltd. (£1, with 5/ paid)	11½xd	14½
3/	4/6	4/	Licenses & General Insce. Co. Ltd., Ord. (£1, with 10/ paid)	5⅝	5⅞
2	—	4	Liverpool & London Globe Insce. Co. Ltd., 4% Perp. Deb. Stk.	92½	92½
3/3	6/6	6/	London & Lancashire Ins. Co. Ltd., Stock	7⅞	8½
11/†	11/†	10/†	London & Manchester Assce. Co. Ltd. (£1)	19½	21½
13/9	20/	18/9	London Assurance, Ord. (£2½)	25½	26⅞
4½d	9½d.	9½d.	Do. do. 4% Cum. Pref. (£1)	18/	18/
5/	—	10/	North British & Mercantile Insce. Co. Ltd., Ord. (£1½)	13½	14½
2	4	4	Do. do. do. do. 4% Pref. Stock (Non-Cum.)	87½xd	89½
11/6	20/	18/	Northern Assurance Co. Ltd., Ord. (£10, with £1 paid)	27½	30½
14/4·209	18/10·209	17/0·716	Do. do. Participating Pref. (£7½)	22½	24
8/†	12/†	12/†	Pearl Assurance Co. Ltd., Ord. (£1)	20¼	22⅛
7½d.	1/2½	1/2½	Do. do. 6% (Tax free), Cum. Pref. (£1)	37/6xd	37/6
8/6	—	17/	Phœnix Assurance Co. Ltd. (£10, with £1 paid)	20⅞	23½
8/6	—	17/	Do. do. (£1)	21	23⅛
2/3¾	2/3¾	2/3¾	Planet Assurance Co. Ltd., Ord. (£1, with 10/ paid)	60/	60/
1/	—	2/	Provincial Insurance Co. Ltd., 10% Cum. Pref. (£1)	37/6	37/6
6d.	—	1/	Do. do. do. 25% Cum. Pref. (4/)	20/	20/6
15/†	—	21/†	Prudential Assurance Co. Ltd., "A" Shares (£1)	39½	43
2/6†	2/6†	2/†	Do. do. do. "B" shares (£1, with 4/ paid)	5 1/16	5 13/16
3/	—	2/6	Reinsurance Corp. Ltd. (£1, with 10/ paid)	81/3	77/6xd
6/	10/	10/	Royal Exchange Assurance, Stock	6¼	8½
5/9	11/	10/	Royal Insurance Co. Ltd., Stock	13⅜	15⅜
4/	—	7/	Scottish Union & National Ins. Co., "A" Shares (£10, with £1 paid)	8½	9⅞
15/	—	26/3	Scottish Union & National Ins. Co., "B" Shares (£5, with £3¾ paid)	33½	34½
3/	5/	5/	Sea Insurance Co. Ltd. (£1)	5⅝	6⅜
2/10	5/	5/	Sun Insurance Office Ltd. (£1, with 10/ paid)	6	6 13/16
1/9†	—	3/6†	Sun Life Assurance Society (£1)	8⅜	9⅜
1/	1/	1/	Victory Insurance Co. Ltd., Ord. (16/ with 6/ paid)	38/	37/
2/	2/	1/10½	World Auxiliary Insce. Corp. Ltd. (£1, with 10/ paid)	40/	40/
4/9	8/	8/	Yorkshire Insurance Co. Ltd. (£2½, with 10/ paid)	11½	13⅜
9/6	16/	16/	Do. do. (£1)	23	26½
			*Insurance-Units	26/5½	28/7½xd
			*Conbits	16/10½	17/9

* These prices include stamp duty and commission.
† Free of Income Tax.
xd.—Ex Dividend.

Bank Reports, Meetings, etc.

BARCLAYS BANK LIMITED

Statement of Accounts, June 30, 1954

LIABILITIES

Current, deposit and other accounts (including balance of profit and loss)	£1,381,488,154	0	0
Acceptances, guarantees, indemnities, etc., for account of customers	47,212,497	0	0
Capital authorised—29,000,000 ordinary shares of £1 each, £29,000,000; 1,000,000 staff shares of £1 each, £1,000,000—£30,000,000. Capital issued (converted into stock)—ordinary stock, £22,247,653; staff stock, £667,050	22,914,703	0	0
Reserve fund	12,750,000	0	0
	£1,464,365,354	0	0

ASSETS

Cash in hand and with the Bank of England	£114,197,862	0	0
Balances with other British banks and cheques in course of collection	59,538,738	0	0
Money at call and short notice	80,765,000	0	0
Bills discounted—British Government Treasury bills, £219,075,000; other bills, £31,645,900	250,720,900	0	0
Investments—Securities of, or guaranteed by, the British Government, £491,385,575 British Dominion, Provincial & Colonial Government securities, and British Corporation stocks, £18,037,906; other investments, £396,331	509,819,812	0	0
Advances to customers and other accounts	376,779,478	0	0
Trade investments—			
British Linen Bank stock	3,728,558	0	0
Other subsidiaries—(including fully paid stock and 500,000 "B" shares of £5 each, £2 per share paid up, in Barclays Bank (Dominion, Colonial and Overseas) and 1,000,000 shares of £1 each, 5*s.* per share paid up, in Barclays Bank (France) Limited)	9,753,388	0	0
Other trade investments—(including 2,638 shares of £1,000 each, £500 per share paid up, in Industrial and Commercial Finance Corporation Limited)	1,957,420	0	0
Bank premises and adjoining properties	9,891,701	0	0
Customers' liability for acceptances, guarantees, indemnities, etc.	47,212,497	0	0
	£1,464,365,354	0	0

THE BRITISH BANK OF THE MIDDLE EAST

The profits for the year, after making provision for expenses of management, general charges in London and at branches, taxation, and contingencies, amount to £113,814, to which has to be added £130,951, brought forward from last account, making a total of £244,765. The directors now recommend payment of a final dividend of 5½ per cent. subject to income tax at 9*s.* in the £, making with the interim dividend of 2 per cent. a total for the year of 7½ per cent., subject to tax. It is also proposed to add £50,000 to reserve account, which is thereby increased to £1,350,000 and to carry forward £132,890.

Balance-sheet, March 31, 1954

LIABILITIES

Capital—Authorised, issued and fully called up :—1,500,000 ordinary shares of £1	£1,500,000	0	0
Revenue reserves—Reserve account, £1,350,000 : profit and loss account, £132,890	1,482,890	0	0
Current and deposit accounts, bills payable, provisions and reserves for contingencies and taxation on profits to date, £43,158,575 ; proposed final dividend, *less* income tax, £45,375	43,203,950	0	0
Credits and guarantees on behalf of customers	7,463,064	0	0
	£53,649,904	0	0

NOTES : 1. In accordance with the resolution passed by shareholders on July 21, 1953, the authorised capital of the bank has been increased from £1,000,000 to £1,500,000, and the sum of £500,000 from the reserve account has been capitalised by issuing, credited as fully paid up, to shareholders 500,000 shares of £1 each. The sum of £500,000 has been transferred from the bank's inner reserves to the published reserve.

2. The current assets and liabilities abroad have been converted at the rates of exchange ruling at March 31, 1954.

3. The subsidiary company does not trade and has made neither profit nor loss for the year. In view of the insignificant amounts involved, Consolidated accounts have not been prepared.

4. Directors' remuneration :
The aggregate amount payable in respect of the services of directors of the bank were
Fees . . . [illegible]

5. Included in current assets are statutory deposits required by British, Indian and Iraqi Government regulations comprising
Securities £365,772
Cash £[illegible]

6. There are forward contracts outstanding for the purchase and sale of bills and telegraphic transfers amounting to £[illegible]

ASSETS

CURRENT ASSETS :—			
Cash in hand, at bankers and in transit	£7,257,174	0	0
Money at call and short notice	8,862,757	0	0
Investments :—Quoted on London Stock Exchange :—British Government securities and guaranteed stocks, £14,626,489 ; Commonwealth Government securities, £48,468 ; quoted on Bombay Stock Exchange :—Indian Government securities, £153,719 (investments are, in the aggregate, below market value)—£14,828,676 ; unquoted at or under cost :—foreign Government securities £100,000 ; miscellaneous, £13,750 ; subsidiary company, £98	14,942,524	0	0
Bills discounted, advances to customers and other accounts (*less* provision for bad and doubtful debts)	11,300,717	0	0
Bills receivable	3,723,668	0	0
	£46,086,840	0	0
FIXED ASSETS :—			
Bank and other premises—at cost, *less* amounts written off	100,000	0	0
Liability of customers for credits and guarantees as per contra	7,463,064	0	0
	£53,649,904	0	0

The sixty-fifth ordinary general meeting of the British Bank of the Middle East was held on July 20 in London, E.C., The Right Honourable Lord Kennet of the Dene, P.C., G.B.E., D.S.O., D.S.C., the chairman, presiding.

The following are extracts from the chairman's statement, circulated with the report and accounts for the year ended March 31, 1954 :—

Our Accounts again show a strong position. Our Deposits are up by £4,000,000 to £43,000,000. Cash in hand and at bankers and money at call are over £16,000,000, £1,000,000 less than a year ago, but our investments in British Government and other securities stand at approximately £15,000,000, representing an increase of over £4,000,000 on the figures of the previous year.

A decline in the total of credits and guarantees of £1,000,000 is offset by an increase of £1,300,000 in advances to customers and bills discounted. Our fixed assets remain in the balance sheet at £100,000 unchanged.

You will recall that a year ago you passed a special resolution increasing our capital to £1,500,000. You received a dividend of 10 per cent. last year on the old capital of £1,000,000. A distribution of the same amount of profits this year would call for a dividend of 6⅔ per cent. on the new capital.

Altogether we consider the accounts show such a degree of strength and consolidation of our position as to justify the payment of a final dividend of 5½ per cent., making a total of 7½ per cent. for the year. Your Board plan to reduce next year the disparity between the interim and final dividends.

The passage of the years has now established the British Bank of the Middle East as an institution with a much wider and more active scope in its present form than it had in its original form as the Imperial Bank of Persia. We seek and find new fields of utility, opened to us by changing conditions in the Middle East, and appropriate to our special experience. Thus the most characteristic events in our past year were the opening of new branches in Bombay and Calcutta, and at Doha on the Qatar Peninsula in the Persian Gulf. In Baghdad we opened a new sub-branch in Rashid Street.

We have had branches in India before, one in Bombay, from 1891 to 1900 and again from 1919 to 1934, and one in Calcutta from 1892 to 1895. In 1895, 1900 and 1934 we closed the branches in Bombay and Calcutta. The trend of trade then between India and Persia was the reason. But now we have five branches in the Persian Gulf where the currency is the Indian Rupee. We have three branches in Saudi Arabia and one in Aden, where transactions with India are considerable, not to speak of the trade relations between India and this country, in which we can play a useful part, and we have branches in other countries which trade with India. It is this expansion in our scope which takes us back to India, now that opportunity serves.

The Nationale Handelsbank N.V., better known here perhaps by their former title, Nederlandsch Indische Handelsbank, transferred their branches in Bombay and Calcutta to us on January 1, the necessary licences having been obtained from the Indian Government. Both branches were taken over as going concerns, so that we have acquired a foundation on which we can enlarge the considerable business which of late years we have been building up with India. In the course of this transaction with the Nationale Handelsbank, we have developed a very happy relationship with them. We hope and believe that we shall be of use to the economy of India, in the development of her trade with the other countries where we are established. Already we have evidence that this will be so.

With the permission of His Highness Shaikh Ali bin Abdullah al Thani, Ruler of Qatar, a branch was opened in his capital of Doha on March 1. The oilfield at Dukhan in Qatar is at present producing at the rate of four million tons a year and this rate of production is shortly to be increased. Preparatory work in connection with off-shore drilling is now in hand by the Shell Company. The usual activity connected with the finding of oil in hitherto barren and undeveloped territory is proceeding on prudent lines.

In Iraq the most important event of the year has been the Coronation of His Majesty King Faisal II, which took place in May, 1953. This was celebrated with expressions of loyalty on the part of all sections of the population.

Oil production in Iraq has continued to increase throughout the year and the hundred millionth ton was produced in 1953. It is estimated that the revenue accruing to Iraq from oil in 1953 will amount to about I.D. 55 million. The oilfield in southern Iraq is only at the beginning of its development.

Development work continues steadily and the large part of the oil revenues set aside for capital development work is carefully administered on well thought out projects. Iraq is fortunate amongst the oil-producing states of the Middle East in as much as she has ready practical projects on which to spend her revenue which themselves, in the fullness of time, will become revenue producing.

In Kuwait much progress has been made during the year. Kuwait now possesses several very fine schools and a number of new roads. His Highness's Government is giving priority to a pipe line to bring fresh water to Kuwait from the Shatt al Arab in Iraq territory. The plans and political arrangements for this may take some time to make, but nothing could reduce the high cost of living in Kuwait more than this, which will enable foodstuffs to be raised in Kuwait itself.

During the last year we completed and occupied the extension to our Kuwait office and four new dwelling houses for our Staff.

It gave us particular pleasure to be honoured by meeting His Highness the Ruler Shaikh Sir Abdulla al Salem al Subah on the occasion of his visit to England for the Coronation of Her Majesty.

In Bahrain trade has been generally satisfactory. Work on the new electric power station, utilising natural gas from the oilfield, has begun. After completion, electricity should be extremely cheap in Bahrain and it is hoped that new industries may be founded to utilise it.

Plans for the construction of a deep sea pier have reached an advanced stage and the contract for the preliminary dredging work is likely to be put to tender in the near future. Other development work of a useful nature is in hand. A large part of the revenues continues to be spent to excellent advantage on education and public health.

His Highness the Ruler of Bahrain visited London for the Coronation and your Directors are happy to have had the honour of meeting him.

At Dubai our business continues to prosper. Our new premises, which include air-conditioned accommodation for our British Staff, have been completed and are a good addition to the buildings we have already constructed in other Persian Gulf centres.

At Muscat our business continues to serve His Highness the Sultan and his people. So far oil-prosperity has not reached Oman ; in fact, such prosperity at other places tends to induce the population to emigrate to those centres. There is hope, however, that before long oil will be discovered somewhere in the Sultanate, with a corresponding increase in the wealth of its inhabitants.

Our three branches in Saudi Arabia are now well-established and we have evidence that the facilities thus made available by a British bank are appreciated.

During the year we had sad occasion to mourn the death of His Majesty King Abdul Aziz Abdul Rahman al Faisal al Saud, the ever faithful ally of our country through many difficult years and the great regenerator of his own. His eldest son, King Saud ibn Abdul Aziz al Saud, succeeded to the throne of his father and there is no doubt that the steady progress of the country under his wise rule will continue. As in other Middle East countries, much material development is in hand and in the Eastern Provinces, at Alkhobar and Dammam where we have branches, progress has been almost startling. We have recently moved into a new office building in Dammam, and plans for new office premises at Alkhobar are in hand.

At Jeddah, where we have been established longest in Saudi Arabia, the town continues to grow in size and there is considerable building activity.

The oil wells of the Arabian American Oil Company in the eastern province are the main source of the country's wealth and are still the biggest producers in the Middle East. British exporters have good opportunities of expanding their sales in Saudi Arabia.

In Syria, where we have branches at Damascus and Aleppo, development without the help of revenues from oil and without external aid, continues on the lines natural to that country. Like Iraq, Syria has land and water to put to use and this she is doing with success. In 1953, there was an excellent harvest, the wheat crop being estimated at between 850,000 and 1,000,000 tons, giving an exportable surplus of 400,000 tons ; the barley crop was estimated at 450,000 tons, with an exportable surplus of 150,000 tons. Recent political events caused very little interruption of business life.

In the Republic of Lebanon an enlightened policy to attract investment in new industrial ventures, development of the tourist industry and general trading facilities, has done much to offset a slight recession in trade last year. The importance of Beirut as an airport is illustrated by the fact that 20,000 passengers a month moved through Beirut Airport in 1953, compared with 2,000 a month in 1950.

Banking competition in the Lebanon is increasingly keen, but our branches continue to hold the ground they have won.

In Jordan the event of the year was the Coronation of His Majesty King Hussein, amidst scenes of great public rejoicing.

The problem of how to settle the half-million refugees from Palestine in Jordan seems no nearer solution. The United Nations Relief and Works Agency for Palestine Refugees continues to provide minimum food, clothing and shelter, but little progress has been made in finding employment for them. Work on the Yarmouk River irrigation project, which I mentioned to you last year, has unfortunately been held up.

At Aden our recently established branch continues to progress. During recent months restrictions on trade have been considerably relaxed and import licensing has been largely done away with. This should assist the entrepôt trade.

Our branch in Libya was opened soon after the foundation of the new state ; and has to establish itself in a community in which many of the political conditions are novel, but the commercial and financial conditions are long-established. The field for an expansion of banking activities has therefore some difficult aspects, which the future may remove. Our hope that other branches might be opened along the southern shore of the Mediterranean has not yet been found capable of realisation.

Report and accounts were adopted.

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August, 1954

COUTTS & COMPANY

Statement of Accounts, June 30, 1954

LIABILITIES

Capital authorised £2,000,000.			
Capital issued and paid up, £1,000,000 ; reserve fund, £1,000,000	£2,000,000	0	0
Current, deposit and other accounts including inner reserves and provisions, £52,866,994 : amounts due to subsidiary companies, £600	52,867,594	0	0
Liabilities for acceptances, endorsements, engagements, etc., as per contra . .	2,201,061	0	0
(There is a contingent liability for uncalled capital in respect of a portion of the trade investments.)			
	£57,068,655	0	0

ASSETS

Coin, bank notes and balances with the Bank of England	£4,551,905	0	0
Balances with, and cheques in course of collection on, other banks in the United Kingdom and Ireland and cheques, drafts, etc., in transit	2,695,783	0	0
Money at call and short notice	6,277,100	0	0
Bills discounted—British Government Treasury bills, £6,200,000 ; bills payable by British firms and institutions in the United Kingdom, £520,259 ; other bills, £55,714	6,775,973	0	0
Investments at less than market value—British Government securities and securities guaranteed by the British Government, £18,322,637 ; other quoted investments including securities of Dominion & Colonial Governments, British public boards, and British municipal corporations, £223,209	18,545,846	0	0
Advances to customers and other accounts	15,527,461	0	0
	£54,374,068	0	0
Trade investments at cost or under, £89,026 : subsidiary (nominee) companies shares (written down to nil), nil.	89,026	0	0
Bank premises at cost, *less* amounts written off	404,500	0	0
Liabilities of customers for acceptances, endorsements, engagements, etc., as per contra	2,201,061	0	0
	£57,068,655	0	0

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DISTRICT BANK LIMITED

Statement of Accounts, June 30, 1954

LIABILITIES

Authorised capital	£10,560,428	0	0
Capital paid up	£2,976,428	0	0
Reserve fund (including share premium account £976,428)	3,800,000	0	0
Current, deposit and other accounts	241,708,833	0	0
Acceptances, endorsements, etc.	14,889,250	0	0
	£263,374,511	0	0

ASSETS

Coin, bank notes and balances with the Bank of England	£19,683,612	0	0
Balances with and Cheques in course of collection on other banks in Gt. Britain and Ireland	12,431,198	0	0
Money at call and short notice	17,226,750	0	0
Treasury bills	35,400,000	0	0
Bills discounted	782,394	0	0
Investments (at or under market value)	96,852,638	0	0
Unquoted investments	332,500	0	0
Trade investments	601,027	0	0
Advances to customers and other accounts	63,638,288	0	0
Liabilities of customers for acceptances, endorsements, etc.	14,889,250	0	0
Bank premises account	1,536,854	0	0
	£263,374,511	0	0

GLYN, MILLS & CO.

Abridged Statement of Assets and Liabilities, June 30, 1954

LIABILITIES

Capital—stock authorised and issued	£1,060,000	0	0
Reserve fund	1,060,000	0	0
Current, deposit and other accounts (including provisions and reserve for contingencies)	58,756,826	0	0
Amount due to subsidiary companies	43,196	0	0
Acceptances and confirmed credits on account of customer	2,914,809	0	0
Engagements on account of customers	3,366,967	0	0
	£67,201,798	0	0

ASSETS

Coin, bank notes and balance with the Bank of England	£4,226,531	0	0
Balances with, and cheques in course of collection on, other banks in the British Isles	4,594,842	0	0
Money at call and short notice	8,414,000	0	0
Bills discounted	495,206	0	0
Investments—(*a*) at or under market value—British Government securities, £19,064,697; other quoted securities, £587,141; (*b*) at cost *less* reserve—unquoted securities, £86,500; (*c*) subsidiary companies (written down to nil), nil	19,738,338	0	0
There is a contingent liability for uncalled capital in respect of a portion of the investments.			
Advances to customers and other accounts, £22,691,825; amount due by subsidiary companies £64,280	22,756,105	0	0
Liabilities of customers for acceptances, confirmed credits and engagements	6,281,776	0	0
Bank premises and other properties (cost *less* amounts written off)	695,000	0	0
	£67,201,798	0	0

LLOYDS BANK LIMITED

Statement of Accounts, June 30, 1954

LIABILITIES

Capital—authorised, £74,000,000; subscribed, £73,302,076.			
Capital paid up	£15,810,252	0	0
Reserve fund—share premium account, £1,143,683; general reserve, £15,356,317	16,500,000	0	0
Current, deposit, and other accounts, including contingency accounts (public accounts secured as per Note II are also included), £1,172,848,069; balances in account with subsidiary companies, £1,140,778	1,173,988,847	0	0
Notes in circulation (Isle of Man) (see Note II)	9,551	0	0
Acceptances	3,063,013	0	0
Endorsements, guarantees, and other obligations	91,117,276	0	0
	£1,300,488,939	0	0

ASSETS

Cash in hand, with Bank of England and Eastern Reserve Banks	£92,223,235	0	0
Balances with, and cheques in course of collection on, other banks in the United Kingdom and Ireland	52,809,448	0	0
Money at call and short notice	79,706,000	0	0
Balances with banks abroad	7,753,973	0	0
British Government Treasury bills £198,365,000; British bills of exchange, £4,376,104; dominion, colonial and foreign bills (including India, Pakistan and Burma Treasury bills, £1,316,250), £2,268,280	205,009,384	0	0
Investments (see Notes I and II):—Securities of, or guaranteed by, the British Government	387,401,917	0	0
Other investments, including securities of Dominion and Colonial Governments, British public boards and British municipal corporations, quoted £33,941,809; unquoted £7,035,111	40,976,920	0	0
Loans and advances after deducting provision for bad and doubtful accounts	299,770,260	0	0
Items in transit	18,493,573	0	0
	£1,184,144,710	0	0
Trade investments:—Subsidiary companies—The National Bank of Scotland Limited, consolidated capital stock £4,897,320 (nominal), £1,077,110 paid up, taken at amount paid up, plus proportion of reserve fund and undivided profits	3,645,866	0	0
Lloyds Bank Executor and Trustee Company (Channel Islands) Limited, 100,000 shares of £1 each, fully paid, at cost	100,000	0	0
Lloyds and National Provincial Foreign Bank Limited, 12,000 shares of £50 each, fully paid, at £50 per share	600,000	0	0
Other trade investments	3,767,693	0	0
NOTE.—There is a contingent liability for uncalled capital in respect of a portion of these investments.			
Other assets and accounts (including sundry properties at cost, *less* amounts written off)	5,480,910	0	0
Bank premises, at cost, *less* amounts written off	8,569,471	0	0
Liabilities of customers for acceptances, as per contra	3,063,013	0	0
Liabilities of customers for endorsements, etc., as per contra	91,117,276	0	0
	£1,300,488,939	0	0

NOTES I. Market value on June 30, 1954, of the investments in British Government securities and other investments was greater than the figures quoted in this statement.

II. Securities and other investments totalling £1,036,666 nominal are lodged for public and other accounts and for the note issue in the Isle of Man.

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MARTINS BANK LIMITED

Statement of Accounts, June 30, 1954

LIABILITIES

Capital—authorised, £20,791,120; issued £20,757,326.			
Capital—paid up	£4,315,096	0	0
Reserve funds (including share premium account £445,779)	6,000,000	0	0
Current, deposit and other accounts	318,183,082	0	0
Notes in circulation (Isle of Man	19,104	0	0
Acceptances on account of customers	1,706,522	0	0
Engagements on account of customers	13,530,222	0	0
	£343,754,026	0	0

ASSETS

Cash in hand and at Bank of England	£25,111,922	0	0
Balances with, and cheques in course of collection on other banks in the British Isles	16,243,460	0	0
Money at call and at short notice	28,945,500	0	0
Balances with banks abroad	593,079	0	0
Treasury bills	41,450,000	0	0
Bills discounted	3,233,182	0	0
Investments	116,773,114	0	0
Loans, advances and other accounts	91,093,367	0	0
Liability of customers for acceptances and engagement	15,236,744	0	0
Investments in subsidiary companies	100,000	0	0
Trade investments	664,745	0	0
Bank premises and other property	4,308,912	0	0
	£343,754,026	0	0

MIDLAND BANK LIMITED

Statement of Accounts, June 30, 1954.

LIABILITIES.

	£	s.	d.
Share capital authorised—2,869,079 shares of £12 each, £34,428,948; 2,000,000 shares of £2 10s. each, £5,000,000; 5,771,052 shares of £1 each, £5,771,052	£45,200,000	0	0
Share capital issued—2,869,079 shares of £12 each, £2 10s. paid, £7,172,697½; 1,921,677 shares of £2 10s. each, fully paid, £4,804,192½; 3,181,731 shares of £1 each, fully paid, £3,181,731	£15,158,621	0	0
Reserve fund (including share premium account £2,871,224)	15,158,621	0	0
Current, deposit and other accounts, including contingency reserves, provision for taxation and balance of profit and loss account, £1,362,461,182; balances in account with subsidiary banks and companies, £25,600,963	1,388,062,145	0	0
Acceptances and confirmed credits on account of customers	23,308,123	0	0
Engagements on account of customers	29,286,690	0	0
	£1,470,974,200	0	0

ASSETS

	£	s.	d.
Coin, bank notes and balances with the Bank of England	£113,855,689	0	0
Balances with, and cheques in course of collection on other banks in the British Isles	61,680,268	0	0
Money at call and short notice	83,012,323	0	0
Bills discounted—British Treasury bills, £243,356,076; other bills, £36,246,398	279,602,474	0	0
Quoted investments (including £55,000 nominal lodged for public account)—Securities of, or guaranteed by, the British Government (See Note 1) £487,949,158; other investments at or under cost and below market value, £29,080	487,978,238	0	0
Sundry unquoted investments at cost, *less* provisions (See Note 2)	1,876,828	0	0
Advances—Advances to customers and other accounts, *less* provision for doubtful debts, £371,572,993; Midland Bank Executor and Trustee Company Limited—loans on behalf of clients, £1,286,531	372,859,524	0	0
Liabilities of customers for acceptances, confirmed credits and engagements	52,594,813	0	0
Shares in subsidiary banks and companies—Belfast Banking Company Limited—200,000 shares of £12 10s. each, £4 paid, £800,000; reserve and undivided profits, £1,262,696—£2,062,696; Clydesdale & North of Scotland Bank Limited—100,000 shares of £50 each, £10 paid, £1,000,000; 65,200 shares of £50 each, £17 10s. paid, £1,141,000; 30,000 shares of £10 each, fully paid, £300,000; reserve and undivided profits, £3,899,257—£6,340,257; Midland Bank Executor and Trustee Company Limited—200,000 shares of £5 each, £1 5s. paid, £250,000; share premiums, reserve and undivided profits, £213,492—£463,492; sundry nominee companies at cost, *less* amounts written off, nil	8,866,445	0	0
Bank premises and other properties at cost, *less* amounts written off and provisions	8,647,598	0	0
	£1,470,974,200	0	0

NOTES—(1) Investments in British Government securities are stated at a book value which is at or under cost and below redemption price, and at June 30, 1954 amounted as shown to £487,949,158. All are redeemable at fixed dates and over 90 per cent. mature within 10 years. At that date the value of these investments at middle market prices, less net accrued interest, was in excess of such book value.

(2) There are contingent liabilities of £1,380,500 for uncalled capital in respect of a portion of the unquoted investments.

(3) In addition to the engagements as shown above the bank has contracts running with customers for the sale and purchase of foreign currencies. These contracts, which are to the value of £41,897,108, are covered by compensating contracts for a corresponding amount.

(4) Full provision has been made for the bank's liability for taxation on all profits to date irrespective of when assessable.

(5) Foreign currency balances have been expressed in sterling at the rates ruling at June 30, 1954.

THE NATIONAL BANK LIMITED

Statement of Accounts for June, 1954

LIABILITIES

Capital—registered, £7,500,000 ; subscribed, £7,500,000.			
Capital—paid up	£1,500,000	0	0
Reserve fund	1,435,000	0	0
Current, deposit and other accounts	82,490,000	0	0
Acceptances, endorsements, etc., as per contra	666,000	0	0
Notes in circulation	614,000	0	0
	£86,705,000	0	0

ASSETS

Coin, bank and currency notes and balances with the Bank of England	£7,054,000	0	0
Balances with, and cheques in course of collection on, other banks in the United Kingdom	1,386,000	0	0
Money at call and at short notice	13,980,000	0	0
Treasury bills	2,300,000	0	0
Other bills discounted	2,319,000	0	0
Investments	27,917,000	0	0
Advances to customers and other accounts	30,652,000	0	0
Liabilities of customers for acceptances, endorsements, etc.	666.000	0	0
Bank premises account	431,000	0	0
	£86,705,000	0	0

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NATIONAL PROVINCIAL BANK LIMITED

The share capital of this company is £60,000,000, divided into 600,000 " A " shares of £5 each, 9,600,000 " B " shares of £5 each, and 9,000,000 shares of £1 each. The number of shares issued is 600,000 " A " shares of £5 each, 7,889,416 " B " shares of £5 each, and 1,170,000 shares of £1 each. Calls to the amount of 14s. per share on the " A " shares of £5 and of £1 per share on the " B " shares of £5 have been made, under which the sum of £8,309,416 has been received. The 1,170,000 shares of £1 each have been fully paid, for which the sum of £1,170,000 has been received.

Statement of Accounts, June 30, 1954

LIABILITIES

Capital paid up	£9,479,416	0	0
Reserve funds (including share premium account £1,144,950)	12,250,000	0	0
Current, deposit and other accounts, £841,296,140 ; amounts due to subsidiary companies, £289,601	841,585,741	0	0
Liabilities for acceptances, endorsements, etc.	30,471,418	0	0
(There is a contingent liability for uncalled capital in respect of a portion of the investments.)			
	£893,786,575	0	0

ASSETS

	£	s.	d.
Coin, bank notes and balances with the Bank of England	£72,367,893	0	0
Balances with, and cheques in course of collection on, other banks in the United Kingdom and Ireland, and cheques, drafts, etc., in transit	38,865,127	0	0
Money at call and short notice	63,103,000	0	0
Bills discounted – British Government Treasury bills, £155,855,000 ; bills payable by British firms and institutions in the United Kingdom, £3,388,997 : other bills, £460,288	159,704,285	0	0
Investments at less than market value—British Government securities and securities guaranteed by the British Government, £247,915,072 ; other quoted investments including securities of Dominion and Colonial Governments, British public boards and British municipal corporations, £1,980,573	249,895,645	0	0
Advances to customers and other accounts, £267,515,284 ; amounts due by subsidiary companies, nil	267,515,284	0	0
Trade investments—Subsidiary companies—Coutts & Company, £1,000,000 stock, £1,000,000 ; reserve fund and undivided profits, £1,204,395 : National Provincial Channel Islands Executor and Trustee Company Ltd., 100,000 shares of £1 each, fully paid, at cost, £100,000 ; other subsidiary companies (written down to nil), nil—£2,304,395 : Lloyds and National Provincial Foreign Bank Ltd., 12,000 shares of £50 each, fully paid, at cost, £600,000 : other trade investments, at cost or under, £2,546,266	5,450,661	0	0
Bank premises, at cost, *less* amounts written off	6,413,262	0	0
Liabilities of customers for acceptances, endorsements, etc., as per contra	30,471,418	0	0
	£893,786,575	0	0

OTTOMAN BANK

In the preparation of the Balance Sheet, assets and liabilities in foreign currencies have been converted into Sterling at the rates ruling at December 31, 1953, with the exception of the item bank premises and real estate. The accounts made up to December 31, 1953, after charging taxation and after constituting necessary provisions out of revenue of the year and reserves previously made, show an amount available of £429,056 6s. 9*d*., including £160,474 5s. 7*d*. remitted in respect of profits of previous years and £30,459 19s. 2*d*. brought forward from 1952. From this total there has been set aside a sum of £200,000 to strengthen the reserve for contingencies, leaving a balance in the profit and loss account of £229,056 6s. 9*d*. The committee recommend a distribution at the rate of 8s. per share, payable in Istanbul, London and Paris on June 30, 1954, leaving £29,056 6s. 9*d*. to be carried forward to the current year.

Liabilities and Assets, December 31, 1953

LIABILITIES

	£	s.	d.
Capital, £10,000,000 ; *less* not called up, £5,000,000	£5,000,000	0	0
Statutory reserve	1,250,000	0	0
Bills payable and sight drafts	405,591	2	11
Current, deposit and other accounts	84,079,548	16	4
Acceptances, endorsements and guarantees	14,577,405	1	2
Profit and loss account	229,056	6	9
	£105,541,601	7	2

ASSETS

	£	s.	d.
Cash in hand and at bankers	£10,547,784	19	11
Money at call and notice	12,292,802	3	0
Bills receivable	14,777,016	15	6
Investments (including £12,721,791 British Government securities)	14,035,690	12	6
Advances to customers and other accounts	38,394,776	3	10
Clients for acceptances, endorsements and guarantees	14,577,405	1	2
Bank premises and real estate	916,125	11	3
	£105,541,601	7	2

THE RT. HON. LORD LATYMER'S REVIEW

The eighty-seventh annual general meeting of Ottoman Bank was held on June 23 at Winchester House, Old Broad Street, London, E.C.

The Rt. Hon. Lord Latymer (the chairman) presided and in the course of his speech said: The figures for 1953 of Turkey's economic activity show notable progress. Important increases in production are shown especially in agriculture where there have been record harvests. The fall in the price of cereals, however, following excellent world harvests, unfortunately had a serious effect in Turkey. Considerable delays in remittance of cover for imports resulted in spite of the Government's vigorous counter-measures. Nevertheless, this situation has not had too discouraging an effect abroad; foreign countries continue to show confidence in Turkey, and to feel that the Government will be able to confine its foreign expenditure to those items which are necessary to the development of the country and to an improved standard of living. It is hoped that the measures taken to surmount these difficulties will soon prove effective.

A new law for the encouragement of foreign investment came into force in January, 1954. Of wider scope than the law of August, 1951, the new law invites foreign interests into all spheres of activity "which further the economic development of the country" and which do not involve special monopolies. Profits may be repatriated without hindrance, or may be reinvested in the same undertaking or in another concern which complies with the regulations. Proceeds of the sale of a part or of the whole of the business may be repatriated at any time.

Public Finance continues sound: as in 1952, revenue actually exceeded budget estimates and this winter the Grand National Assembly was able to pass, for the first time in twenty years, a balanced budget. This is a remarkable achievement for a country which is not only making a supreme effort to equip itself but has also to meet a very heavy defence programme.

Egypt

During the year 1953 it was more to the policital events in Egypt that attention abroad was attracted than to the general improvements in the economic position, which resulted from the country's real and successful efforts to stimulate the export of Cotton, upon which her prosperity so largely depends.

Our new building in Cairo, of which I spoke last year, was completed some months ago. It is a very fine building, comfortable for our staff, convenient for our clients, and, I think, a visible tribute to our confidence in the future of the country, whose fortunes this Bank has shared for so many years. It is, however, not upon impressive premises but upon the excellence or otherwise of the care and attention given by the staff of the Bank to the affairs of its customers that the development of our business in Egypt depends. I am confident that the standard of service we have set in Egypt is being well maintained.

The chairman then reviewed the other territories where the bank had interests and continued:—

The London and Paris Offices have continued to make every effort to stimulate and foster trade between and with the countries of the Middle East, where our Branches are established. For the branches in Marseilles and in Manchester also, it was a busy and encouraging year.

Balance Sheet Items

The Balance Sheet totals show an increase over last year of more than £24,000,000, of which some £13,000,000 is due to including this year for the first time contra accounts in respect of endorsements and guarantees as well as acceptances which latter item alone has appeared in the past. The current, deposit and other accounts show an expansion of more than £11,000,000 which may be considered satisfactory, especially if the cessation of all our current banking activities in Israel is borne in mind.

We continue to maintain a liquid position with cash and money at call together showing a ratio to deposits of 27 per cent., bills receivable of 17½ per cent. and investments of 16½ per cent. Advances show an increase of £8,000,000, most of which took place towards the end of the year.

It will be noticed that the figure of £238,122 included in the profit and loss account under the heading "result for the year ended December 31, 1953" shows a substantial increase over the same figure for 1952, while the figure of £160,474 included under the heading "remittances in respect of profits for previous years" shows a decrease.

It is our practice to include under the head "result for the year" only those profits of the year under review which have been remitted into Sterling before the accounts are made up. I have mentioned at former General Meetings that it is often impossible to ensure that the necessary exchange for remittance of our profits from the various countries in which we operate is available in sufficient time to enable them to be included in the figures for the year in which they are earned. No particular significance must, therefore, be attributed to the variation which may occur from year to year in the relative size of these two items.

The total amount of profit available, including the balance of £30,459 brought forward from 1952, is £429,056, compared with £480,460 last year. The appropriation to "reserve for contingencies" is reduced this year from £250,000 to £200,000, leaving a balance of £229,056.

The Committee propose that a dividend of 8s. per Share be paid again this year, absorbing £200,000 and leaving £29,056 to be carried forward to 1954.

The report was adopted.

WESTMINSTER BANK LIMITED

Statement of Accounts, June 30, 1954

LIABILITIES

Capital—authorised, £33,000,000 ; subscribed, £30,533,127 ; paid up	£9,320,157	0	0
Reserve	10,920,157	0	0
Current, deposit and other accounts	853,541,492	0	0
Liabilities for acceptances, endorsements, etc., as per contra	57,101,481	0	0
Notes in circulation in the Isle of Man	16,612	0	0
	£930,899,899	0	0

ASSETS

Coin, Bank of England notes and balances with the Bank of England	£66,454,525	0	0
Balances with, and cheques in course of collection on other banks in Great Britain and Ireland	42,164,180	0	0
Money at call and short notice	58,988,550	0	0
Bills discounted—Treasury bills, £158,910,000 ; other bills, £3,970,770	162,880,770	0	0
Investments	294,502,442	0	0
Investments in affiliated banks and subsidiary companies	3,092,500	0	0
Advances to customers and other accounts	240,061,701	0	0
Bank premises account	5,653,750	0	0
Liabilities of customers for acceptances, endorsements, etc., as per contra	57,101,481	0	0
	£930,899,899	0	0

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WILLIAMS DEACON'S BANK LIMITED

Statement of Accounts, June 30, 1954

LIABILITIES

Capital issued, £8,125,000 viz. . 1,562,500 £5 " A " shares, £1 paid £1,562,500 ; 312,500 £1 " B " shares £312,500	£1,875,000	0	0
Reserve fund	2,000,000	0	0
Current, deposit, and other accounts	140,438,310	11	0
Acceptances and credits opened on account of customers	1,027,344	16	4
Endorsements and other obligations on account of customers	10,072,206	0	10
	£155,412,861	8	2

ASSETS

Coin, bank notes, and balances with the Bank of England	£11,575,160	1	2
Balances with, and cheques in course of collection on other banks in Great Britain and Ireland	6,862,403	8	3
Money at call and short notice	14,110,753	0	10
Bills discounted (including £18,950,000 Treasury bills)	19,460,767	8	6
British Government securities (under market value)	47,678,663	4	6
Other investments	956,473	14	0
Advances to customers and other accounts	42,544,445	18	0
Bank premises account	1,124,643	15	9
Liabilities of customers for acceptances and credits opened	1,027,344	16	4
Liabilities of customers for endorsements and other obligations	10,072,206	0	10
	£155,412,861	8	2

BANK OF ENGLAND—ANALYSIS OF RETURNS

Date	Notes in Circulation	Gold Coin and Bullion	Government Securities in Banking Department	Other Securities in Banking Department	Discounts and Advances	Public Deposits †	Other Deposits: Bankers	Other Deposits: Other Accounts	Total Deposits	Reserve	Proportion of Reserve to Liabilities	* Rate of Discount
1954	£	£	£	£	£	£	£	£	£	£	%	%
Mar. 3	1,555,900,773	2,764,945	327,529,439	24,909,091	12,536,830	26,816,931	276,577,265	64,975,565	368,369,761	21,864,172	5·9	3½
,, 10	1,561,769,550	2,794,638	333,519,439	17,712,101	15,630,000	21,633,078	277,407,846	65,357,854	364,398,778	16,025,088	4·3	,,
,, 17	1,562,663,863	2,810,743	296,184,439	18,409,602	10,222,700	12,781,922	292,654,546	66,034,397	371,470,865	65,146,880	17·5	,,
,, 24	1,565,756,327	3,000,721	293,799,439	18,575,622	7,493,407	18,030,690	280,973,935	64,582,528	363,587,153	62,244,394	17·1	,,
,, 31	1,576,905,973	3,158,253	303,394,439	15,857,015	15,223,407	31,603,046	262,701,335	72,870,513	367,174,894	51,252,280	13·9	,,
Apr. 7	1,592,177,930	3,170,476	319,454,439	13,970,071	13,623,407	14,261,148	287,039,883	64,029,212	365,330,243	35,992,546	9·8	,,
,, 14	1,609,013,783	3,111,103	334,974,439	14,064,852	7,868,407	15,531,087	278,151,799	64,578,373	358,261,259	19,097,320	5·3	,,
,, 21	1,615,116,260	3,058,960	347,904,439	13,866,124	10,533,407	11,402,834	292,531,493	63,479,299	367,413,626	12,942,700	3·5	,,
,, 28	1,612,557,523	3,057,023	355,564,439	13,966,752	7,528,412	18,313,938	289,261,467	67,144,528	374,719,933	15,499,500	4·1	,,
May 5	1,613,339,928	3,045,938	353,054,439	13,865,875	9,607,700	28,571,611	275,462,513	69,331,693	373,365,817	14,706,010	3·9	,,
,, 12	1,612,905,757	3,039,676	346,179,439	14,049,662	8,387,700	24,579,121	270,615,582	70,663,933	365,858,636	15,133,919	4·1	3
,, 19	1,609,768,692	3,088,542	338,829,439	13,902,265	6,973,542	24,049,416	267,424,762	68,623,570	360,097,748	18,319,852	5·0	,,
,, 26	1,613,419,801	3,114,245	338,664,439	13,863,081	6,958,549	23,224,529	267,513,508	69,804,116	360,842,153	14,694,444	4·1	,,
June 2	1,624,694,203	3,123,022	301,174,439	13,892,973	15,448,654	15,033,855	280,769,342	70,134,815	365,938,012	53,428,819	14·6	,,
,, 9	1,637,150,536	2,614,397	321,444,439	13,795,246	8,838,464	19,792,591	279,262,501	67,439,539	366,494,631	40,463,861	11·0	,,
,, 16	1,640,712,366	2,606,565	326,759,439	13,855,763	9,419,493	15,431,666	287,175,604	66,221,884	368,829,154	36,894,199	10·0	,,
,, 23	1,641,508,951	2,602,785	320,924,439	13,847,245	13,609,713	15,640,509	283,457,867	67,234,525	366,332,901	36,093,834	9·8	,,
,, 30	1,647,428,299	2,613,862	360,924,439	13,668,501	11,744,709	19,265,109	307,742,860	71,342,609	398,350,578	30,185,563	7·5	,,
July 7	1,661,664,096	2,616,642	349,389,439	13,635,658	7,203,065	27,100,502	273,962,832	66,888,961	367,952,295	15,952,546	4·3	,,
,, 14	1,675,996,045	2,626,727	323,356,629	13,895,766	7,793,713	23,628,858	287,694,077	67,120,686	378,443,621	51,630,682	13·6	,,
,, 21	1,701,273,046	2,616,544	337,096,629	13,877,583	8,508,713	21,428,901	277,519,491	68,889,743	367,838,035	26,343,498	7·1	,,

* The figures of the Returns are those of the Wednesday on which the Returns are dated but except when otherwise stated the dates of the change in the Official Rate of Discount apply to the following day (Thursday).
† This figure includes H.M. Treasury Special Account.

MONTHLY STATEMENT OF BALANCES OF LONDON CLEARING BANKS

(000's omitted)

June, 1954	Barclays	Coutts and Co.	District	Glyn, Mills & Co.	Lloyds	Martins	Midland	National	National Provincial	Westminster	Williams Deacon's	Aggregates
Date	30th	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	30th	30th	30th	[illegible]	30th	
ASSETS	£	£	£	£	£	£	£	£	£	£	£	£
Coin, Bank Notes and Balances with the Bank of England	114,198	4,552	19,654	4,227	92,223	25,112	113,856	7,054	72,368	66,455	11,575	531,304
Balances with and Cheques in course of collection on other Banks in the U.K. and Republic of Ireland	59,539	2,696	12,131	4,595	52,508	16,243	61,680	1,386	38,865	42,164	6,862	299,270
Items in Transit	—	—	—	—	18,494	—	—	—	—	—	—	18,494
Money at Call and Short Notice	80,765	6,277	17,227	8,414	79,706	28,946	83,012	13,980	63,103	58,989	14,111	454,530
Treasury Bills Discounted	210,075	6,200	55,[illegible]		193,365	41,450	[illegible]	2,30[illegible]	155,855	158,910	18,950	1,079,801
Other Bills Discounted	31,646	570	782	445	6,044	3,233	36,240	2,319	3,840	3,971	511	90,272
Investments at Book Value	511,777	15,[illegible]	67,780	19,738	432,147	117,438	499,855	27,917	253,043	294,502	48,635	2,311,473
Advances to Customers and other Accounts	376,779	15,527	63,638	22,756	313,905	91,686	372,869	30,652	267,515	240,062	42,544	1,837,024
Liabilities of Customers for Acceptances, Endorsements etc.	47,212	2,201	11,880	6,282	94,180	15,237	52,595	666	30,471	57,101	11,100	331,934
Bank Premises Account	9,892	464	1,537	695	8,570	4,309	8,048	431	6,413	5,654	1,125	47,678
Investments in Affiliated Banks, and Subsidiary Companies	13,452	—	—	—	4,346	100	8,860	—	2,301	3,092	—	32,190
	1,464,365	57,068	263,574	67,202	1,300,489	343,754	1,470,974	86,705	893,786	930,900	155,413	7,034,030
Ratio of Cash to Current, Deposit and other Accounts	8·27	8·61	8·14	7·19	7·86	7·89	8·20	8·55	8·60	7·79	8·24	8·13
LIABILITIES												
Capital Paid up	22,915	1,000	2,976	1,000	15,810	4,315	15,159	1,500	9,479	9,320	1,875	85,409
Reserve Fund	12,750	1,000	3,800	1,160	16,500	6,000	15,158	1,435	12,250	10,920	2,000	82,873
Current, Deposit and other Accounts	1,381,488	52,867	241,709	58,800	1,173,989	318,183	1,358,062	82,490	841,586	853,542	140,438	6,533,154*
Acceptances, Endorsements, etc.	47,212	2,201	14,889	6,282	94,180	15,237	52,595	666	30,471	57,101	11,100	331,934
Notes in Circulation	—	—	—	—	19	19	—	614	—	17	—	660
	1,464,365	57,068	263,574	67,202	1,300,489	343,754	1,470,974	86,705	893,786	930,900	155,413	7,034,030

* Current Accounts, £4,193,173 Deposit and other Accounts, £2,339,981.

PROVINCIAL CLEARING-HOUSE RETURNS

[000's omitted]

Date	Birmingham	Bradford	Bristol	Hull	Leeds	Leicester	Liverpool	Manchester	Newcastle-on-Tyne	Nottingham	Sheffield	Southampton
1953	£	£	£	£	£	£	£	£	£	£	£	£
June	17,588	15,472	5,062	5,947	9,910	7,498	42,498	32,267	14,865	4,399	8,770	1,373
July	19,561	19,022	5,443	6,145	11,846	7,909	45,004	34,993	15,504	4,445	9,124	1,442
August	17,238	13,889	5,102	6,710	9,5[illegible]	6,737	40,075	32,796	13,222	4,547	7,303	1,463
September	14,974	15,708	4,721	6,030	9,271	8,103	41,959	34,015	13,330	3,800	7,738	1,341
October	17,316	19,501	5,569	6,589	11,291	8,409	51,035	38,868	14,516	4,683	8,792	1,401
November	21,999	15,855	5,285	5,662	10,381	7,925	44,324	37,371	14,457	4,407	10,074	1,347
December	20,914	18,746	5,293	5,575	10,209	8,[illegible]	51,311	39,531	17,713	4,226	9,684	1,374
1954												
January	29,028	19,848	6,816	7,515	14,376	10,613	53,658	42,543	18,255	5,652	10,641	1,743
February	24,142	14,421	5,532	6,190	11,509	8,028	46,753	38,433	17,123	4,332	9,265	1,537
March	21,315	19,183	5,984	6,199	11,3[illegible]	9,867	54,818	41,860	15,395	4,374	9,478	1,402
April	19,041	18,778	5,[illegible]	5,510	10,457	8,180	47,677	38,048	14,045	4,214	9,434	1,367
May	25,586	18,813	5,961	6,577	11,608	8,641	56,51[illegible]	43,367	16,039	4,673	10,411	1,518
June	19,491	16,917	5,310	5,701	10,872	8,540	48,12[illegible]	36,066	13,529	4,201	9,460	1,458

YEARLY PROVINCIAL CLEARING-HOUSE RETURNS

[000's omitted]

Date	Birmingham	Bradford	Bristol	Hull	Leeds	Leicester	Liverpool	*Manchester	Newcastle-on-Tyne	†Nottingham	‡Sheffield	Southampton
1942	128,228	106,344	101,364	38,787	57,197	43,611	239,347	621,956	75,702	24,062	43,603	5,891
1943	108,783	197,143	33,390	29,518	57,327	41,392	235,639	415,508	79,768	22,353	47,081	6,637
1944	90,201	94,055	34,139	30,403	59,912	41,451	264,679	170,732	88,596	21,004	47,861	8,310
1945	93,355	99,623	35,653	39,255	64,149	46,034	287,332	186,828	95,648	24,219	47,627	9,969
1946	156,640	114,317	37,332	49,889	76,955	57,819	331,808	225,032	111,429	30,357	56,007	10,832
1947	169,375	115,669	41,898	58,731	86,305	68,139	338,747	299,739	115,902	34,750	70,971	12,871
1948	181,814	143,480	42,129	65,318	103,883	73,284	488,353	379,963	126,786	38,411	80,633	13,301
1949	174,224	163,140	42,673	65,141	115,195	81,320	574,464	401,522	134,305	40,083	80,240	13,280
1950	190,365	219,707	44,917	67,074	119,829	86,665	634,248	439,788	132,766	43,736	83,444	13,745
1951	223,924	240,585	59,430	76,999	129,539	96,431	644,373	507,883	143,51[illegible]	49,151	95,872	16,408
1952	226,701	175,907	63,248	76,104	124,499	91,371	544,082	417,029	165,857	50,704	100,674	16,855
1953	230,589	210,190	64,051	76,314	129,9[illegible]	96,141	5[illegible]7,462	436,534	181,809	5[illegible]	106,535	17,043

* Area extended from July 1, 1947 † Area extended from May 5, 1947 ‡ Area extended from June 9, 1947

LONDON BANKERS' CLEARING-HOUSE RETURNS

Month	Town Clearing	General Clearing	Total for the Month
1952	£	£	£
June	6,261,000,000	2,101,000,000	8,363,000,000
July	7,498,000,000	2,395,000,000	9,893,000,000
August	6,192,000,000	2,141,000,000	8,334,000,000
September	6,799,000,000	2,176,000,000	8,975,000,000
October	7,438,000,000	2,459,000,000	9,897,000,000
November	6,471,000,000	2,338,000,000	8,809,000,000
December	6,797,000,000	2,357,000,000	9,154,000,000
1953			
January	8,745,000,000	2,671,000,000	11,416,000,000
February	6,938,000,000	2,243,000,000	9,181,000,000
March	7,783,000,000	2,436,000,000	10,219,000,000
April	7,579,000,000	2,342,000,000	9,921,000,000
May	6,851,000,000	2,480,000,000	9,330,000,000
June	7,425,000,000	2,323,000,000	9,747,000,000
July	8,709,000,000	2,572,000,000	11,281,000,000
August	6,465,000,000	2,176,000,000	8,641,000,000
September	8,445,000,000	2,401,000,000	10,846,000,000
October	9,459,000,000	2,649,000,000	12,108,000,000
November	7,641,000,000	2,384,000,000	10,026,000,000
December	8,030,000,000	2,627,000,000	10,657,000,000
1954			
January	9,554,000,000	2,734,000,000	12,288,000,000
February	7,437,000,000	2,351,000,000	9,788,000,000
March	9,639,000,000	2,638,000,000	12,277,000,000
April	8,583,000,000	2,483,000,000	11,066,000,000
May	9,675,000,000	2,601,000,000	12,276,000,000
June	10,918,000,000	2,592,000,000	13,510,000,000

SCOTTISH CIRCULATION RETURNS

AVERAGE CIRCULATION AND COIN HELD DURING THE FOUR WEEKS ENDED SATURDAY, MAY 29, 1954

Name of Bank	Authorised Circulation	Average Circulation during Four Weeks ended as above			Average Amount of Bank of England Notes and Coin held during Four Weeks ended as above
		£5 and upwards	Under £5	Totals	
	£	£	£	£	£
1 Bank of Scotland	396,852	8,089,446	5.089.279	13,178,725	13,600,807
2 Royal Bank of Scotland	216,451	6,829,280	5,973,671	12,802,951	13,558,549
3 British Linen Bank	438,024	6,456,640	4,398,747	10,855,387	11,182,930
4 Commercial Bank of Scotland	374,880	10,592,824	6,322,344	16,915,168	18,105.303
5 National Bank of Scotland	297,024	6,856,515	4,450,823	11,307,338	12,059,374
6 Union Bank of Scotland	454,346	5,325,687	4,095,682	9,431,369	9,773,859
7 Clydesdale and North of Scotland Bank	498,773	14,800,528	6,106,470	20,906,998	22,023,874
Totals	**2,676,350**	**58,960,920**	**36,437,016**	**95,397,936**	**100,304,696**

August, 1954

IRISH CIRCULATION RETURNS

NORTHERN IRELAND

Average Circulation and Coin held during the Four Weeks ended Saturday, May 29, 1954

Name of Bank	Authorised Circulation	Average Circulation during Four Weeks ended as above			*Average Amount of Bank of England Notes and Coin held during four Weeks ended as above
		£5 and upwards	Under £5	Totals	
	£	£	£	£	£
1 Bank of Ireland	†798,569	1,554,668	251,069	1,806,337	1,101,169
2 Provincial Bank of Ireland	†264,563	1,252,050	209,326	1,461,376	1,387,161
3 Belfast Banking Company	350,000	1,094,484	72,135	1,166,619	1,855,909
4 Northern Bank	244,000	1,493,654	79,638	1,573,292	1,887,203
5 Ulster Bank	290,000	1,511,719	96,258	1,607,977	1,814,640
6 National Bank	120,000	580,260	31,090	611,350	516,329
Totals	**2,067,132**	**7,486,835**	**740,116**	**8,226,951**	**8,562,411**

Each of the Bankers named in the above Return, who have in circulation an amount of Notes beyond that authorised by the Bankers (Northern Ireland) Act, 1928, have held an amount of Bank of England Notes and Gold Coin and Coin other than Gold Coin not less than that which they are required by the Treasury to hold during the period to which this return relates.

† These amounts are the latest amounts approved by the Treasury.
* This column includes Bank of England Notes deposited at the Bank of England which, by virtue of Sec. 9 (1) of the Currency and Bank Notes Act, 1928, are to be treated as gold coin held by the Bank.

Legal Tender Note Fund as at May 29, 1954

Issue Account

	£	s.	d.		£	s.	d.
Outstanding as at end of previous week	67,374,289	0	0	Redeemed during week ended May 29, 1954	987,249	0	0
Issued during week ended May 29, 1954	944,100	0	0	Outstanding as at May 29, 1954	67,331,140	0	0
	£68,318,389	**0**	**0**		**£68,318,389**	**0**	**0**

FOREIGN BANK RETURNS

BANK OF FRANCE

Francs (000,000's omitted)

Date	Gold	Private Discounts and Advances	Advances to State: In Occupation Costs	Advances to State: Treasury Advances	Advances to State: Fixed Advances	Advances to State: Special Advances	Notes	Deposits
June 17	201,282	1,167,998	426,000	195,000	53,849	161,900	2,270,069	111,493
„ 24	201.282	1,171,768	426.000	195,000	53,849	176,900	2,270,081	119,441
July 1	201,282	1,275,816	426,000	195,000	53.849	177,000	2,381,304	125,313
„ 8	201,282	1,301,409	426,000	195,000	53,849	177,800	2,385,466	115,110
1953								
July 9	200,187	1,290,948	426,000	200,000	53,982	—	2,157,421	224,921

FOREIGN BANK RETURNS—*(continued)*

U.S. FEDERAL RESERVE BANKS

Dollars (000,000's omitted)

Date	Total Gold Reserves	Total Cash Reserves	Total U.S. Govt. Securities	Total Bills and Advances	Total Reserves
June 16 . . .	21,241	364	24,911	25,047	51,848
,, 23 . . .	21,239	366	25,231	25,842	52,270
,, 30 . . .	21,239	358	25,037	25,075	50,759
July 7 . . .	21,245	329	25,037	25,122	50,414
1953					
July 15 . . .	21,191	330	24,964	25,166	51,267

Date	F.R. Notes in Circulation	Member Bank Reserve Deposits	Government Deposits	Total Deposits	Excess Member Bank Reserve Deposits	Reserve Ratio %
June 16 . . .	25,485	19,914	459	21,115	807	45·6
,, 23 . . .	25,418	19,825	1,220	21,928	1,041	44·9
,, 30 . . .	25,588	19,011	875	20,808	602	45·8
July 7 . . .	25,801	19,406	300	20,657	1,000	45·7
1953						
July 15 . . .	25,886	19,397	640	20,776	1,141	45·4

U.S. FEDERAL RESERVE BANKS AND TREASURY COMBINED

Date	Monetary Gold Stock	Treasury and Bank Currency	Money in Circulation	Treasury Cash and Deposits with F.R. Banks
June 16 . . .	21,925	4,956	29,803	1,260
,, 23 . . .	21,926	4,955	29,735	2,032
,, 30 . . .	21,927	4,959	29,904	1,704
July 7 . . .	21,928	4,959	30,154	1,126
1953				
July 15 . . .	22,374	4,853	30,163	1,904

GERMANY

COMBINED RETURN OF THE BANK DEUTSCHER LÄNDER AND THE LAND CENTRAL BANKS in DM million.

Date	Gold	Credit Balances at Foreign Banks, Foreign Cash, Bills and Cheques	Inland Bills of Exchange	Advances and Short-Term Lendings to the Federal Government and other Public Authorities	Bank Notes in Circulation	Bank Deposits	Non-Bank Deposits *
May 7 .	1,738·3	7,838·7	1,707·8	163·5	11,086·9	2,928·2	5,316·9
,, 15 .	1,738·3	7,915·6	1,658·7	165·3	10,641·3	2,603·5	6,092·7
,, 22 .	1,706·6	7,878·1	1,658·6	156·1	10,136·9	3,134·9	5,992·9
,, 31 .	1,706·6	7,961·1	1,772·3	148·7	11,498·3	2,686·3	5,430·9
June 15 .	1,711·5	8,069·2	1,730·5	144·1	10,577·4	2,473·3	6,537·3
,, 23 .	1,711·5	8,133·8	1,904·2	128·4	10,060·5	3,341·4	6,578·8
,, 30 .	1,753·7	8,153·6	2,164·4	106·9	11,542·4	2,843·1	5,830·4
July 7 .	1,753·7	8,153·0	2,087·6	95·7	11,049·6	3,353·8	5,566·4

* These figures include purchases of Equalisation Claims by Public Authorities.

100 Years Ago

From *The Bankers' Magazine* of August, 1854

THE HALF-YEARLY MEETINGS

The results of the late half-yearly meetings must have proved extremely gratifying to all interested in the success of joint-stock banking enterprise. The high rates of dividends declared, the rapid and profitable increase in the business of the respective establishments, and the influential character of the directors and proprietors, show the estimation in which the system is held, and the success which has attended its development.

The Union, the London and the Westminster, the London Joint-Stock and the Commercial, each in their reports present favourable features; and the average distribution ranging from 10 to 15 per cent., an ample return is secured upon the amount of invested capital. The admission of the Joint-Stock Banks to the privileges of the clearing, has afforded facilities in business which are highly appreciated; and the alteration will, no doubt, be eventually found of mutual benefit to the whole of the banking community.

The question of a limitation reserve-fund—a point so generally mooted at these periodical gatherings—has provoked less discussion than usual, because the directors have, in the cases where it was practicable, ensured arrangements for fixing a *maximum.* At the London and Westminster Bank meeting an endeavour was made to evade the settlement of an account; but the shareholders, determined not to submit to the *dictum* proposed by the board, entered vigorously into a debate upon the subject, when by general consent it was agreed to name £150,000, this sum not to be increased unless by special vote. It was very properly intimated on the part of those who opposed the opinion expressed by the chairman, on behalf of himself and colleagues, that the position they assumed was not to be deemed as interfering with the confidence entertained in the board, but as one they were justified in taking on what might be distinctly considered an " open question ".

The only bank that appears to have suffered loss from the circulation of fictitious warrants is the London Joint-Stock Bank, and in this instance, to the extent of not more than £5,000. On the whole, therefore, the shareholders have reason to be satisfied with the management of these institutions, and with the large proportion of profits they have obtained in the midst of the general and active competition which prevails in banking and financial operations. It was satisfactory to find that the directors of the Union Bank of London, in apportioning their unappropriated shares, recommended a division of the surplus quantity among the general manager and his assistants, as an acknowledgment of the value of their services, and that the shareholders so unanimously agreed to the proposal.

The dividend of the Union Bank of Australia, is £4 per share, or at the rate of 32 per cent. This slight diminution, compared with the previous distribution, arises from the unfavourable turn:—the exchanges having diminished the profits on gold purchases. The report of the Bank of New South Wales is encouraging. Possessing considerable resources and influential local connexions, the transactions have secured a satisfactory dividend. The Chartered Bank of Asia is making arrangements to amalgamate with a Bombay Bank already in operation. Meanwhile, from the employment of the deposits, a payment of interest to the scripholders has been made at the rate of £4 per cent.

INSURANCE AND ACTUARIAL RECORD

Life Assurance Summarised

FIGURES relating to new sums assured written in 1953 appeared in our issue of February last, and revealed another record year for life assurance business. The fifty-eight companies whose results were included in our table showed aggregate new sums assured approximating £780 million, compared with £737 million in 1952 and £708 million in 1951. It is possible, however, that this total is subject to adjustment in that figures announced by the companies so soon after the close of the year often include items not considered applicable in the more official returns which, at the time of writing, have yet to be published. The following particulars, culled from "British Life Assurance Statistics (Ordinary Branch)" published in December last by the Life Offices' Association and the Associated Scottish Life Offices, are of interest. The figures relate to ordinary new business in the years 1949–1952, and account for some 99 per cent. of the total business transacted.

ORDINARY LIFE ASSURANCE—NEW SUMS ASSURED

Year	Excluding Group Business	Group Life and Group Endowment
1949	£473,000,000	£61,000,000
1950	£518,000,000	£75,000,000
1951	£593,000,000	£129,000,000
1952	£610,000,000	£159,000,000

Continuing the pattern of these figures into 1953, and with the companies' preliminary announcements as additional guide, a total for all companies of around £825 million sums assured is indicated. Much of the expansion of life assurance business in recent years will be seen to have been due to the development of staff life assurance and pension schemes. In this regard, there is, of course, a constant source of new business provided by existing pension schemes, both in respect of new entrants and increases in benefit, so that, despite a setback on new group contracts, as shown in the reports of several individual companies, scheme business taken as a whole is likely to have again contributed handsomely to the increased total for the year.

Publication of the recommendations of the Committee on Taxation Treatment of Provisions for Retirement, under the chairmanship of Mr. J. Millard Tucker, Q.C., was considered imminent throughout the year; a factor which no doubt subscribed to the more hesitant approach of employers to new staff pension commitments, and to a decreased buoyancy in the demand for policies to provide retirement benefits for directors and executives. The Committee's recommendations, made known since the close of the year under review, concern annuities, pension funds and self-employed pensions, and have still to be implemented by the Government. The cost to the Exchequer of adopting the proposals has been estimated at £80 million per annum, and opinion is widespread that, from the national point of view, the additional capital formation which the proposals would encourage might well in the aggregate greatly exceed the

temporary loss of revenue. Company chairmen express the hope that the Government will take an early opportunity of expressing its attitude towards the recommendations, and thus bring to an end the present feeling of uncertainty. It is emphasised that the companies expect to be able to bring existing pension assurances fully into line with any subsequent legislation based on the Committee's recommendations.

While new business is essential for the continued existence of a life office, the conduct of the business which is already on its books is of equal importance. As pointed out in previous reviews, most life assurance companies by reason of their age suffer heavy wastage each year from the normal processes of death and maturity, and of surrenders of existing policies, and for this reason a truer indication of progress is to be found in a study of income and outgo figures as presented in the revenue accounts. The following table is instructive from this point of view.

LIFE AND ANNUITY (ORDINARY) REVENUE ACCOUNTS—1953

(£000's omitted)

Company	Class	Life and Annuity Funds at beginning of Year	Premiums	Consideration for Annuities	Net Interest	Claim and Annuity Payments	Surrenders	Commission and Expenses	Life and Annuity Funds at end of Year
		£	£	£	£	£	£	£	£
Alliance	C.	29,536	2,446	314	935	2,085	323	256	30,274
Atlas	C.	23,450	2,702	33	905	1,455	596	314	25,159
Britannic	I.O.	29,485	3,787	4	1,003	1,753	361	446	31,505
Caledonian	C.	10,923	1,026	196	390	704	120	166	11,487
Clerical Medical and General (Employers' Liability)	P.	21,111	2,079	175	847	1,236	514	376	22,046
Commercial Union	C.	44,205	4,698	799	1,565	2,862	417	613	46,762
Eagle Star	C.	49,977	9,843	363	2,147	2,221	825	689	58,787
Equity & Law	P.	28,008	3,380	381	1,369	2,030	497	552	29,921
Equitable Life	M.	23,834	2,025	246	983	1,258	324	*123	24,882
Friends' Provident	M.	30,598	3,115	2,257	1,592	1,495	414	620	34,940
General Life	C.	11,427	1,370	78	438	739	175	198	12,199
Guardian	C.	20,488	2,401	1,808	901	1,314	249	396	23,636
Law Union & Rock (London and Lancashire)	C.	15,186	1,296	267	548	993	186	262	15,855
Legal & General	C.	165,412	27,864	1,057	6,932	6,475	3,673	2,622	188,350
Liverpool & London & Globe	C.	20,742	1,938	400	706	1,174	329	209	21,896
London Assurance	C.	17,895	1,933	173	640	917	222	260	19,214
London Life Association	M.	29,792	2,212	230	1,076	1,476	844	*133	30,710
London & Manchester	I.O.	22,675	2,695	3	810	1,789	190	345	24,282
National Mutual	M.	9,119	919	41	385	625	61	134	9,606
National Provident	M.	18,945	1,910	345	916	1,171	97	310	20,535
Northern	C.	14,614	2,058	512	480	865	208	328	16,317
North British & Mercantile	C.	53,091	5,463	151	1,710	3,139	583	630	56,159
Norwich Union	M.	89,953	14,298	178	3,730	5,138	1,472	2,782	98,607
Pearl	I.O.	79,492	9,557	85	2,955	6,867	811	1,358	82,416
Phoenix	C.	29,463	2,157	1,130	1,001	1,683	435	361	31,209
Provident Mutual	M.	17,712	2,054	156	685	1,314	242	311	18,736
Prudential	I.O.	257,679	41,184	262	10,925	15,734	3,616	6,075	281,437
Refuge	I.O.	57,918	7,322	60	2,027	4,812	820	913	60,310
Royal Exchange	C.	24,562	2,343	261	935	1,640	409	416	25,633
Royal Insurance	C.	40,770	3,484	823	1,444	2,453	625	564	42,875
Scottish Amicable	M.	29,447	4,941	195	1,329	1,392	549	603	33,369
Scottish Equitable	M.	14,722	1,552	214	634	971	107	266	15,713
Scottish Provident	M.	30,463	3,006	198	1,280	1,776	250	403	32,334
Scottish Union & National	C.	16,405	1,426	1,071	637	1,049	223	291	18,246
Scottish Widows'	M.	59,561	6,738	823	2,617	3,072	601	720	65,048
Standard Life	M.	106,513	17,574	729	4,727	4,366	2,244	1,511	120,966
Sun Life	P.	80,912	12,477	590	2,969	6,157	1,143	1,705	87,757
United Kingdom Provident	M.	34,287	2,961	76	1,468	2,173	387	451	35,293
Wesleyan & General	I.O.	11,111	1,598	7	400	901	159	243	11,786
Yorkshire	C.	24,418	3,139	1,016	1,010	1,086	168	471	27,369
Totals		1,695,901	224,971	17,707	68,051	100,360	25,469	29,426	1,843,631
Totals for 1952		1,582,929	207,477	16,162	61,297	96,201	23,274	27,922	1,695,901
Inc. or Dec. on Year		+112,972	+17,494	+1,545	+6,754	+4,159	+2,195	+1,504	+147,730

* Expenses only—non-commission paying office.

On the basis of premium income, the forty offices comprised in our table represent some 90 per cent. of the total for all companies established within Great Britain. An advance of £25,793,000 to £310,729,000 is recorded under the three main sources of income—premiums, consideration for annuities, and net interest—while the principal outgo items total £155,255,000 to show an increase in the year of £7,858,000. An important aspect in the development of life assurance is the contribution made to national savings with its consequential counteracting influence to the inflationary trend. Life assurance, when both ordinary and industrial branches are considered together, is the largest single source of personal savings in the country. A significant index to the importance of life assurance in the British economy is provided by the annual increase in the funds of the life offices. The ordinary funds of the companies included in the table rose last year by £147,730,000 to £1,843,631,000 (following an advance of £112,972,000 in 1952), while industrial life funds of eight representative companies were higher on the year by £37,794,000 at £757,638,000 (following an advance of £20,254,000 in the previous year). The total net addition to savings made by these companies alone was thus in the region of £185,524,000. But the value of life assurance as a savings institution does not stop there. Last year our selected companies (Ordinary and Industrial) paid some £142,176,000 in death and maturity claims, and it is a fair supposition that of around £87,150,000 so paid under ordinary assurances, a substantial proportion was saved by the recipients. Surrenders were again higher, and since this item is often regarded as an economic barometer, mention has to be made of the very considerable influence on this item of withdrawal payments under pension schemes, particularly in recent years as a result of nationalisation of certain industries. Of the £3,673,000 paid by the *Legal and General* in surrenders, no less than £2,302,000 referred to group life and pension business.

Reference has been made to the contribution of industrial life assurance (now more familiarly termed " home service " assurance) to the forces ranged against inflation. Taking the industrial offices as a whole, one in every three pounds that go to maintain personal life assurance in this country is collected, in the form of industrial assurance premiums, at the policyholders' homes. Most of these policyholders avail themselves of no other means for making voluntary provision for the future. These two facts reflect the importance of the industry in the sphere of national economics and in the lives of individual citizens. Our table includes eight leading industrial life offices whose business represents around 90 per cent. of the total business transacted. In 1953, these offices collected premiums of £110,104,000 and paid claims of £55,026,000. In addition, 3,988,346 new industrial policies were granted to produce future capital payments amounting to £203,878,000, against a corresponding total of £197,045,793 in 1952. The whole of this business was transacted at the homes of the policyholders, and the weight of these transactions alone is sufficient to vindicate the " home service " system. But there is more to the picture than one year's figures for a particular section of the industry. The report of the Industrial Assurance Commissioner for 1952 shows 121,937,000 policies (industrial life companies and collecting societies) in force at the end of that year for aggregate sums assured and bonus additions of £2,804,333,000, and it is pertinent to reflect upon the undoubted loss that would have been sustained by State and citizen had industrial assurance over the years been conducted through the Post Office, or on any other impersonal basis.

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August, 1954

LIFE (INDUSTRIAL) REVENUE ACCOUNTS—1953

(£000's omitted)

COMPANY	Assurance Fund at beginning of Year	Income: Premiums	Income: Net Interest	Outgo: Claims	Outgo: Surrenders	Outgo: Expenses	Transferred to reserves and profit and loss	Assurance Fund at end of Year
	£	£	£	£	£	£	£	£
Britannic	43,262	7,442	1,385	3,170	300	1,984	500	46,339
Co-operative	69,251	15,450	2,875	7,294	1,967	5,185	500	75,616
London & Manchester	19,189	3,265	815	1,525	135	936	90	21,005
Pearl	101,285	15,822	4,286	9,028	1,508	4,186	750	105,154
Prudential	352,256	44,386	16,068	24,101	4,694	17,894	3,587	367,249
Refuge	55,197	9,526	2,470	4,925	933	2,633	220	57,902
Royal London	65,183	8,984	2,888	3,649	699	3,090		69,559
Wesleyan & General	13,221	2,274	630	1,328	60	749	123	14,814
Totals	719,844	110,104	31,867	55,026	10,346	31,657	5,770	757,638
Totals for 1952	699,590	105,924	29,485	53,921	9,925	30,807	9,373	719,844
Inc. or Dec. on Year	20,254	4,180	2,382	1,105	421	850	3,603	37,794

The extent to which industrial policyholders participate in the surplus of the branch, following the periodical actuarial valuation of assets and liabilities, is not as widely known as warranted by the facts. All but one of the offices included in our summary—the *Royal London Mutual*—complete annual valuations, and last year these seven offices declared as surplus in their industrial funds a total of £22,693,000 (against £21,782,000 a year ago), of which £13,841,000 (against £12,320,000), or 61 per cent. (against 56·5 per cent.) was distributed as bonus to policyholders. After applying a greater part of the balance of surplus to reserve provisions, there was £5,471,000 carried forward unappropriated. The last quinquennial valuation of the *Royal London Mutual* was made at the end of 1951, when policyholders received £5,056,916, or 66 per cent. of the industrial branch surplus at £7,650,266, in the form of bonus and interim bonus for the five years. Over 80 per cent. of industrial life new business written to-day is for endowment assurance, and less than one-third of the existing business is in the form of "whole-life." This is a reversal of the position at the beginning of the century, and is responsible, in part, for the increasing average sum assured now written by all offices, which rose last year from £48 to £53·6 per policy.

It is a commonplace that the usual annual accounts afford little indication of the course of life assurance profits. These depend in the main on interest earnings, on expenses, and on rates of mortality experienced. The impact on profits of these complex forces are ascertained at regular intervals by actuarial valuation of assets and liabilities comprised in the life funds. These investigations mark the occasion for the distribution of bonuses to policyholders. The results of profits distribution in the case of those companies where such an event was due to take place last year are summarised in the next table ; the sixteen companies represented in this table recorded a total surplus of £37,718,000, of which £27,110,000 was distributed to policyholders and £7,031,000 carried forward in the valuation accounts. Increases in the rate of bonus distribution were general throughout the list.

ORDINARY LIFE VALUATIONS AND BONUS DISTRIBUTIONS IN 1953

(£000's omitted)

COMPANY	Valuation surplus	Balance Forward included in surplus	To Policyholders	To Shareholders	Carried Forward in Valuation account	1953 Bonus declaration—per cent., per annum	Last declared bonus
			ORDINARY	OFFICES			
QUINQUENNIAL VALUATIONS	£	£	£	£	£	%	%
Alliance	2,731	476	1,919	237	574	36s. C.	30s. C.
Liverpool & London & Globe	2,465	952	1,354	175	936	38s. S	35s. S
Scottish Provident	1,678	312	1,280	(a)	398	38s. C. Endt.	30s. C
						(b) 20s. upwards W.L.(c)	15s. upwards
Scottish Widows'	5,840	310	5,148	(a)	692	40s. C	34s. C
TRIENNIAL VALUATIONS							
Beacon	320	50	235	27	64	32s. S.	25s. S
Caledonian	643	89	454	50	139	42s. S W.L.	32s. S
						40s. S. Endt.	30s S
						40s. C. (Temperance—Endt. 25 yrs. & over	37s. C.
United Kingdom Provident	2,792	518	2,118	(a)	674	38s C.. Temperance—Endt. less than 25 yrs.)	35s. C.
						38s. C. General section	35s. C
ANNUAL VALUATIONS							
London Life Association	546	140	377	(a)	151	37s. 6d. C	35s. C
Provident Association of London	883	596	100	26	(d) 632	30s. S.	25s. S.
			INDUSTRIAL	ORDINARY OFFICES			
ANNUAL VALUATIONS							
Britannic	1,337	321	782	87	(e) 348	32s. S	30s. S
Co-operative	1,641	219	1,379	(a)	262	37s. S.	32s. S
London & Manchester	1,177	646	898	45	234	30s. S	28s. S
Pearl	2,872	974	1,722	191	959	36s. S.	35s. S
Prudential	9,617	592	6,760	651	(f) 706	38s. S	34s. S
Refuge	2,831	1,215	2,322	200	(g) 209	30s. S	26s. S
Wesleyan & General	339	51	262	(a)	(h) 50	30s. S.	28s. S
Totals	37,718	7,461	27,110	1,689	7,031	—	—

(Endt.) Endowment assurance. W.L. Whole-life assurance. S. Bonus calculated on sum assured. C. Bonus calculated on sum assured and existing bonus additions. (a) Operates on mutual principle. (b) Whole-life policies share as from entry: when premiums with 4% compound would equal sum assured. (c) Also special premium reduction scheme. (d) After transferring £100,000 to contingency fund and writing £25,000 off investments. (e) After transferring £120,000 to reserves. (f) After transferring £1,500,000 to contingency fund. (g) After transferring £100,000 to investments reserve. (h) After transferring £27,500 to reserves.

The application of large sums flowing through the channel of insurance institutions has in recent years given much food for thought. It is suggested that an undue concentration of investment power in the hands of the insurance companies is likely to result in a decreasing flow of savings for risk capital. The large funds which life offices hold as trustees for their policyholders are frequently applied towards new issues of capital for industry, and it is pointed out that knowledge of the availability of these growing funds for investment purposes lends strong support to new and existing issues of suitable types. Our analysis of the distribution of life assets of 25 companies shows that of funds totalling £2,066,412,000, slightly more than one-third is spread over industrial securities—Debentures, Preference stocks and Ordinary shares. Further, this proportion has been growing steadily over the years. Assurance funds are also playing a vital role in the country's building programme, particularly that portion which aims at solving the housing shortage. According to the Board of Trade summary for 1952, some £307 million of life companies' assets are invested in mortgages of all kinds, and figures indicate that of this total over £200 million represent house purchase loans.

August, 1954

DISTRIBUTION OF LIFE ASSETS OF TWENTY-FIVE COMPANIES—1953

(£000's omitted)

Company	Total Life Funds and Investment Reserves	Total Life Assets	Brit. Govt. Securities	Debentures	Preference	Ordinary	Mortgages and Loans	Property and Ground Rents
	£	£	£	£	£	£	£	£
Atlas	25,484	25,886	6,609	3,801	2,653	3,699	4,482	2,356
Britannic (a)	84,011	86,879	36,117	3,242	3,232	13,910	20,476	1,617
Commercial Union	48,661	49,205	15,124	9,077	5,056	5,466	6,602	4,298
Equity and Law Life	39,313	40,750	8,125	6,575	4,529	9,284	3,975	2,010
Equitable Life	25,703	25,851	5,201	4,852	1,791	2,881	5,140	2,231
Law Union & Rock (London & Lancashire)	15,855	16,015	5,415	1,470	1,214	1,370	4,039	848
London Assurance	19,214	19,513	3,195	2,333	1,771	2,810	7,464	819
London and Manchester (a)	48,745	49,897	22,984	4,710	3,106	7,309	5,533	2,497
National Mutual Life	11,924	12,312	2,293	2,211	1,482	1,854	2,100	1,317
National Provident Institution	21,266	21,974	3,006	3,616	3,378	4,542	2,966	2,332
North British & Mercantile	57,359	57,967	24,730	3,371	1,795	4,595	11,152	990
Norwich Union Life	104,568	107,293	15,492	4,826	934	(b)4,310	51,222	13,937
Pearl (a)	195,270	(d)210,757	90,209	28,143	15,679	31,547	6,519	9,975
Phoenix	31,300	31,688	10,372	4,092	1,783	4,190	6,857	1,801
Provident Mutual	19,919	20,349	6,808	2,720	2,962	4,268	1,048	464
Prudential (a)	671,186	681,240	283,011	95,854	47,152	82,667	40,595	69,655
Refuge (a)	131,362	133,104	52,408	15,640	17,621	10,440	22,834	1,680
Royal London Mutual (a)	110,154	110,474	45,644	10,262	14,964	17,016	9,864	3,316
Scottish Amicable	34,466	35,263	15,614	3,748	2,678	5,071	4,676	973
Scottish Union & National	18,246	18,522	5,728	2,371	2,577	4,120	1,637	534
Scottish Widows'	66,722	69,035	20,408	7,344	9,427	20,759	3,416	2,120
Standard	123,988	125,600	31,087	25,350	11,950	24,769	(c)10,370	651
Sun Life	95,216	96,979	30,825	24,768	2,673	5,258	26,485	1,495
United Kingdom Provident	36,797	37,909	4,316	1,956	2,530	9,106	4,303	8,907
Wesleyan and General (a)	29,683	30,284	12,123	1,742	3,385	4	9,053	1,477
Totals	2,066,412	2,114,746	756,844	274,074	166,322	281,245	272,808	138,300
% of Total Assets	—	—	35.79	12.96	7.86	13.30	12.90	6.54
Totals for 1952	1,915,747	1,963,475	704,038	248,235	156,340	251,988	254,427	129,747
% of Total Assets	—	—	35.86	12.64	7.96	12.83	13.0	6.61

(a) Includes Industrial Life assets. (b) Excluding £6,088,174 shares in Norwich Union Fire Society. (c) Excluding £7,390,000 loans to the Heritable Securities & Mortgage Investment Ltd. (d) Includes approximately £5,000,000 non-life assets.

◆

The Provident Association of London

THE report of the Provident Association of London for 1953 continues the fine record of stability and progress attained during seventy-six years of assurance service. As a leading exponent of house purchase by the life assurance method, the Association has won wide recognition. In recent years, however, the business has developed on much broader lines, and today, in addition to offering attractive annuity schemes, the Association transacts all forms of life assurance in large measure.

During the past year, 7,845 policies of life assurance were granted for sums assured, after deduction of reassurances, of £8,991,239, and produced a new annual premium income of £276,897. The total premiums were £1,315,933, consideration for annuities (including annuities-certain) amounted to £281,399, and net interest brought in £592,623. The total funds, at £17,720,098, reflect an increase in the year of £511,238.

House property advances made to policyholders were maintained, around former levels, amounting to £1,696,358 against £1,697,656 in 1952, but the total amount of all such advances outstanding at the close of 1953 was £12,286,863, consisting of 13,782 mortgages, compared with £11,591,011, under 13,721 mortgages, at the end of the previous year. The number of borrowing policyholders in 1953 was 1,323 and the average amount of each advance made during the year was £1,282. The excellent position of these mortgages is evident from the fact that interest on 99·13 per cent. of the total amount outstanding was, at December 31 last, either regularly paid or was not more than six months in arrear.

The actuarial valuation of liabilities of the life fund was made at the year-end on the same stringent basis as in preceding years, the A1924–29 Ultimate table of mortality with an assumed interest rate of 2½ per cent. net being employed for assurances, and the a(f) and a(m) Ultimate tables with 3 per cent. gross interest for annuities. The surplus increased during 1953 by £287,746, of which £100,043 was allocated to policyholders and £26,030 (including £11,000 out of non-divisible profits) transferred to profit and loss account. The balance of £161,673 was applied to bring the available total in the valuation account up to £757,375, and, after transferring £100,000 to the life assurance contingency fund, and applying £25,000 to writing down investments, there remained £632,375 carried forward. The reversionary bonus to participating policyholders is at the increased rate of £1. 10s. per cent.

Including net interest of £75,566 and transfers of £11,000 and £15,030 from the life fund, the total at profit and loss was £102,264. Profits tax absorbed £23,174, expenses took £10,576 and interest to depositors required £8,527. After writing £1,158 off investments there remained £58,829, which, with £57,162 balance from last year's account, gave a total of £115,991 for appropriation. The cost of the dividends was £59,000, leaving £56,991 carried forward.

Balance sheet assets at £17,720,098 include mortgages and loans of £12,545,931, and investments at £4,699,331. The paid-up capital is £850,000, and there is an investment reserve of £850,000 and a reserve fund of £700,000. Assets are certified as being, in the aggregate, fully of the value stated.

Insurance Notes

INVESTMENT PROTECTION COMMITTEE

In his report of the work of the Investment Protection Committee of the British Insurance Association, the chairman, Mr. D. G. S. Cutler, states that the subject of preference shareholders' rights has continued to receive attention, and it is satisfactory to record a great improvement in the general conception of the position of preference shareholders and particularly in the protective rights accorded to them in new issues. Indeed, it may be said that what is acceptable both to institutional investors and to the issuing companies has

recently been exemplified in certain notable cases of first-class importance. It is gratifying also to report that it has become increasingly common for companies, when capitalising reserves or otherwise altering their capital structure, to make or freely accept proposals to safeguard the position of their preference shareholders—in many cases by amending their rights in such manner that they have no need to concern themselves with the dilution of their voting power as a result of the issue of further equity capital.

Several cases of the issue of non-voting shares have come to the notice of the Committee during the past year. It is a practice which, in principle, the Committee deplore although they appreciated that in some cases the directors had adopted this course, when making a bonus issue, in order to preserve the effectiveness of the voting power attaching to the preference capital. While the Committee approve the motive behind the proposal in such cases, they have, whenever possible, advocated alternative methods of maintaining the preference shareholders' position.

The Committee considered, as a matter of principle, the position which arose when the directors of a company in opposing a "take-over" bid, adopted a course of action which had the effect of placing certain important assets outside the control of the board and of the company. After considering a statement made by the President of the Board of Trade and making further inquiries, the Committee decided to take no immediate action, but to watch the position closely.

The Committee appointed by the President of the Board of Trade to consider whether it was desirable to permit companies to issue shares of no par value have now published their report, and the chairman states that the recommendations of the Departmental Committee, as expressed in the majority report, appear to correspond quite closely to those made in the evidence submitted by the Investment Protection Committee.

ADMINISTRATION BOND LIABILITY OF SURETIES

A LAW case of some general interest is that listed as Harwell *v.* Foster and Another. The plaintiff's father died in February, 1948, and by his will left the whole of his estate to the plaintiff and appointed her sole executrix. In April, 1948, the plaintiff married, and in May, 1949, she instructed the defendants, who practised as solicitors, to prove the will. She was under age and elected for her husband to be appointed administrator and guardian until she came of age, which she did in March, 1950. In May, 1949, an administration bond was entered into by her husband and the defendants as sureties for him for the due administration of the estate, and in June, 1949, letters of administration were granted to the husband. The marriage broke down and while the husband gave the plaintiff a portion of her money, he disappeared soon after he received a further sum from the defendants and a full account of the administration. In January, 1952, the bond was assigned to the plaintiff by the Probate Division, and she claimed the balance of the estate from the defendants.

Lord Goddard, C.J., held that as soon as the estate had been wound up and the residue was in the husband's hands, he ceased to be an administrator and held the residue in the capacity of a trustee for the plaintiff until she attained the age of 21. The defendants had realised the estate and paid the debts, hence the estate was clear

and the administration was at an end, and the bond could not be held to be a bond to secure the performance of the husband's duties as a trustee. The action failed accordingly.

PEARL ASSURANCE PROGRESS

RECORD figures for new business were achieved by the Pearl Assurance Company last year in each of the life branches, the total new sums assured amounting to £20,355,978 (against £19,828,995 in 1952) in the ordinary branch, and £29,404,352 (against £27,181,523) in the industrial branch. The combined premium income exceeded £25 millions for the first time, the ordinary branch showing an increase of £494,521 to £9,557,305, and the industrial branch an increase of £572,409 to £15,822,011. The growing importance of the fire and accident sections is evidenced by a premium revenue of £7,103,716, an increase in the year of £419,020. Total income from all sources amounted to £42,090,994, an increase in the year of £2,255,028, and total assets were advanced by £7,370,244 to £210,757,463.

The actuarial valuation disclosed a combined ordinary and industrial branch surplus of £5,761,397 (against £5,736,579 a year ago). Of this sum, £3,353,258 (against £3,200,297) is allocated to ordinary and industrial branch policyholders, and £1,666,772 (against £1,809,264) is carried forward. For the sixth year in succession the ordinary branch bonus rate has been increased, with-profit policyholders receiving in respect of 1953 a reversionary bonus at the rate of 36*s.* per cent.

The greater part of new money becoming available has been invested in industry and commerce, holdings of debentures showing an increase of £1,644,583 to £28,143,423, and ordinary stocks an increase of £3,355,900 to £31,546,583. British Government securities account for £90,209,432. The market value of the company's investments is substantially in excess of the balance-sheet value.

Mr. G. R. L. Tilley, M.A., F.C.I.S., chairman of the *Pearl*, has been co-opted to the council of the Chartered Institute of Secretaries.

EMPLOYERS' ASSURANCE BUYS AMERICAN SUBSIDIARY

THE *Employers' Liability* Assurance Corporation announce the purchase of the *Halifax* Insurance Company of New York, which will be carried on as a wholly owned subsidiary of the Corporation.

The *Halifax* Insurance Company of New York was formed recently to take over the United States business of the well known Canadian company, the *Halifax* Insurance Company of Nova Scotia. The annual premium income involved is in the neighbourhood of $1,200,000, almost all of which is in respect of fire business and allied lines. The purchase is thus in line with the stated policy of *The Employers'*, as indicated by its chairman, Lord Courtauld-Thomson, " to continue even more actively its policy of world-wide development, particularly in fire business."

INSURANCE ADVERTISING

MR. A. P. COOPER, publicity organiser of the Norwich Union Insurance Societies, was the guest speaker at a recent lunch-time meeting arranged by the Norwich local committee of the Industrial Life Offices. Commenting on the modesty of the advertising expenditure of the

insurance industry generally, Mr. Cooper stated he thought it incongruous that eight times as much should be spent on advertising alcoholic drinks as on advertising the merits of insurance. "During the twelve months ended June, 1953," he said, "insurance's biggest advertiser spent only one-quarter as much as did a single canning firm in advertising its canned peas." Referring to the matter of collective advertising, with which he said he was in favour, Mr. Cooper instanced how difficult it was to devise effective advertising copy which simultaneously appealed to all types of the insurance industry—the ordinary as well as the industrial life office, the mutual as well as the proprietary, the tariff as well as the non-tariff office.

LAW REFORM ACT 1954

THE Law Reform (Limitation of Actions, etc.) Act, 1954, received the Royal Assent on June 4, 1954. The new Act introduces several important changes and is of special interest to accident insurers. The Limitation Act, 1939, as respects personal injury actions is amended so that the period of limitation is reduced from six years to three. Under the Fatal Accidents Act, 1846, actions must be commenced within 12 calendar months after the death of the deceased, but the period is now to be three years. Thus the new legislation introduces welcome uniformity. There are also amendments to the Crown Proceedings Act, 1947, and the Law Reform (Miscellaneous Provisions) Act, 1934.

BERNE UNION OF CREDIT INSURERS

THE Union of Insurers for the Supervision of International Credits, commonly known as the Berne Union, held its 11th annual meeting in Rome recently, under the chairmanship of Mr. B. R. Frick, of the Swedish Export Credits Guarantee Board, with the Societa Italiana Assicurazione Crediti acting as hosts. The meeting was attended by representatives of credit insurance institutions in Canada, Denmark, France, the German Federal Republic, Ireland, Italy, the Netherlands, Norway, Spain, Sweden, and the United Kingdom.

Discussions during the meeting concerned a number of importing countries which on account of prevailing economic trends, transfer difficulties, and other conditions call for special attention on the part of credit insurers. Reports on their policy in respect of these markets were made by the various institutions. Information was also exchanged about new forms of cover, credit terms underwritten, the scope of guarantees and of premium rates charged. With a view to increased co-operation a revised body of statutes was adopted and it was decided to set up a permanent secretariat, the terms of reference of which were preliminarily agreed.

New members admitted were the *Trade Indemnity* Company of London, and four Irish insurance companies underwriting credit risks subject to reinsurance by the Irish Government. Dr. Bruno de Mori, director general of the Societa Italiana, was elected president for a period including the general meeting of 1955. Mr. Owen (comptroller-general of the Export Credits Guarantee Department, London) is a member of the committee formed to assist the chairman, particularly in matters of organisation in regard to the secretariat.

AUSTRALIAN EARTHQUAKE CLAIMS

EARLY estimates of the damage caused by the earthquake in South Australia in March last, have proved much too low. The earthquake, which has been little publicised outside Australia itself, was the worst in the history of the State, and affected Adelaide and the surrounding country district. It consisted of several tremors each lasting up to 30 seconds. Casualties were few, and injuries slight, but damage to property was extensive. An early estimate of insurance claims was £A1,000,000, but it was recently learned in the London insurance market that the total now exceeds £A3,000,000. It is made up of some 30,000 claims, averaging between £A80 and £A90 apiece. Some individual companies have received up to 2,000 separate claims under householders' policies and under earthquake extensions to ordinary fire policies. It is stated that within a few weeks of the disaster nearly half the claims had been assessed and payment put in hand.

LIFE POLICIES AND AGGREGATION

FOR some 60 years there has been provision under the Married Women's Property Acts whereby a person could take out an assurance policy, the fruits of which would inure to his wife, or any one or more of his several children, and he could so arrange it that each of these pieces of property would be assessed as separate estates at his death. In the intensified search for legitimate means by which the heavy burden of estate duty might be mitigated, it was discovered that the benefit under this provision could be augmented by taking out a number of policies, each for a sum of £2,000 or under, when none would fall to be accounted for estate duty. Hence Clause 29 of the Finance Bill, which in its original form provided that *all* policies effected under the provisions of the M.W.P.A. would be aggregated for estate duty, *whether or not they relate to one and the same beneficiary.* The clause was strongly contested in the Committee stage of the Bill—it being considered that the Government, in their desire to stop up a loophole, had gone a little further than was desirable—and when it was considered on Report, the Financial Secretary to the Treasury, Mr. John Boyd Carpenter, moved an amendment. The main effect of the amendment is to aggregate, for the purpose of estate duty, *all policy moneys in the name of one individual*, or in the words of the Financial Secretary " to treat as being within individual ringed fences the proceeds of policies in favour of named individuals."

It has to be recorded that the evasion referred to was from the first frowned upon by the life offices, and it was the companies themselves who brought the matter to the notice of the Inland Revenue. Further, during the past five years there has been an extra-statutory arrangement between the life offices and the Inland Revenue authorities aimed at minimising, if not entirely abolishing, the use of Married Women's Property Act policies as a means of avoiding tax in the manner indicated.

Insurance Appointments

THE BRITISH LAW INSURANCE COMPANY.—Mr. G. W. M. Neill, D.S.O., S.S.C., has been appointed to the seat on the Dundee local board.

CANADA LIFE ASSURANCE COMPANY.—Mr. Neil J. McKinnon has been appointed a member of the board to represent the shareholders.

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The Income of Shareholders 1938-1953

By David Walker

IN the first part of this article I present some statistics designed to illuminate a problem which must seem paradoxical to many readers of *The Bankers' Magazine*; namely the contrast between the present booming profits of many industrial firms and the obvious fact that the standard of living of shareholders as a class is very much below what it was before the war or even at the end of it. Then, as statistics cannot speak for themselves, I give—in the second part—some reasons why I think the figures have moved in the way revealed by my tables.

Statistics

At the heart of our problem is the distinction that the government statisticians draw between national income and personal income.

In a closed economy national income is the sum of the incomes of the factors of production, *i.e.* labour, capital and land. Table 1 shows the changes that have occurred in the distribution of national income during the period 1938–1953.

It is clear at a glance that the only major change has been the enormous reduction in the share going to rent, due primarily to the combination of the Rent Restriction Acts and the fact that " free " rents are contractual payments, often fixed for a long period of years, the real value of which declines in periods of rising prices. There has been no other important change ; certainly there is here no evidence to suggest that shareholders should be less well off than before the war for the share of the national income represented by the gross trading profits of companies and public corporations rose from 15 per cent. pre-war to about 19 per cent. post-war.

TABLE 1

DISTRIBUTION OF GROSS DOMESTIC INCOME (in £ million)

	1938	1946	1948	1950	1952	1953
Income of Employees	3,007 61·7%	5,628 64·1%	6,632 63·9%	7,454 62·8%	8,903 65·8%	9,442 65·1%
Income of Self-Employed Persons	636 13·1%	1,179 13·4%	1,340 12·9%	1,424 12·0%	1,553 11·5%	1,606 11·1%
Gross Trading Profits of Companies and Public Corporations	735 15·1%	1,511 17·1%	1,935 18·7%	2,358 19·9%	2,533 18·8%	2,732 18·9%
Gross Profits of other Public Enterprises	64 1·3%	91 1·0%	113 1·1%	147 1·3%	49 0·4%	66 0·5%
Rent	428 8·8%	365 4·4%	381 3·7%	458 3·8%	513 3·8%	571 3·9%
Residual Error	— —	— —	34 0·3%	23 0·2%	42 0·3%	66 0·5%
Gross Domestic Income including Provisions for Depreciation and Stock Appreciation	4,870	8,774	10,367	11,864	13,509	14,483

Sources: Preliminary Estimates of National Income and Expenditure 1948–1953, CMD. 9118. Annual Abstract of Statistics, 1953.

Personal income is—as its name suggests—the total income received by persons; what individuals receive in any one year and out of which they have to pay their income tax, purchase the necessities and luxuries they desire (and can afford) and make whatever provision for the future that seems desirable. Personal income differs from national income in a number of important respects. It includes certain items that are not included in national income and excludes some that are. National debt interest and social security transfer payments (old age pensions, national assistance and the like) are not regarded as part of national income since they do not represent payments to factors of production in return for services that have increased the national output, yet to the individuals who receive them they are clearly income and must, therefore, be counted as part of personal income.

Part of national income never becomes the income of persons. All wage and salary payments are at one and the same time rewards to factors of production and the incomes of persons; so too are the profits of the owners of unincorporated businesses. It is the last three items of Table I that give rise to complications. The main point is that only a part of corporate profits becomes the income of persons, *i.e.* that part distributed as dividends. Though in a legal sense the total profits of a company belong to the shareholders there is no doubt that in practice it is only over the dividends that they receive that shareholders have complete control. The difference between total corporate income and gross dividends, which is the sum of gross undistributed profits on the one hand and the income tax payable on undistributed profits plus profits tax payments on the other, represents national income that does not become part of personal income. This is a substantial part of national income; some £2,500 million in 1953 out of a national income of about £14,500 million. There is also another (quantitatively trivial)

leakage, for part of national income accrues to the government in its capacity as landlord and capitalist and cannot, therefore, become the income of any person.

Table 2 covering the same period as Table 1 shows the changes that have occurred in the distribution of personal income.

TABLE 2

DISTRIBUTION OF PERSONAL INCOME

(in £ million)

	1938	1946	1948	1950	1952	1953
Income of Employees	3,007 59·6%	5,628 65·3%	6,632 67·4%	7,454 68·4%	8,903 69·7%	9,442 69·7%
Mixed Incomes	636 12·6%	1,179 13·7%	1,340 13·6%	1,424 13·1%	1,553 12·2%	1,606 11·9%
Dividends and Interest paid by British Corporate Undertakings and received by Persons*	657 13·0%	620 7·2%	711 7·2%	716 6·6%	867 6·8%	923 6·8%
Other Property Income received by Persons — Rent, National Debt Interest, etc.	473 9·4%	516 6·0%	453 4·6%	549 5·0%	539 4·2%	561 4·2%
Social Security Transfer Payments	275 5·4%	672 7·8%	704 7·2%	757 6·9%	910 7·1%	1,000 7·4%
Total Personal Income	5,048	8,615	9,840	10,900	12,772	13,537

* It has been assumed that all the interest and dividends paid out by British Corporate undertakings (excluding intercorporate transactions) are received by U.K. citizens.

Sources: As in Table 1.

It is obvious that employees have greatly increased their share of personal income primarily at the expense of shareholders and others dependent upon property incomes.

Broadly speaking personal incomes determine the distribution of purchasing power available for buying consumption goods. The decline in the shareholders' share of personal income represents, therefore, a decline in their share of the goods and services available for consumption and, therefore, in the standard of living of the group as a whole.

The figures we have just noticed do not take into account the incidence of the personal income tax. If it is true that shareholders as a class are wealthier than employees then the above figures considerably underestimate the re-allocation of purchasing power (post-tax) that has taken place for the increased rates of income tax as compared with pre-war are not here taken into consideration. However, it seems to me preferable to ignore the personal income tax in this context as it affects the shareholder and the non-shareholder in a more or less equal manner—assuming they have the same income—whereas we are really interested in the factors that have altered the relative pre-tax income position of shareholders and other income receivers.

Our problem, then, is really to explain how a small increase in corporate profits as a percentage of national income comes to be associated with an enormous fall in the share of dividends in personal income. This apparent paradox is resolved in a statistical

sense in Table 3. We see there the terrific decline in the proportion of corporate income that is distributed as dividends to shareholders.

TABLE 3

CORPORATE INCOME APPROPRIATION ACCOUNT
(in £ million)

	1938	1946	1948	1950	1952	1953
INCOME						
Gross Trading Profits of Companies and Public Corporations operating in U.K.	735	1,511	1,935	2,358	2,533	2,732
Other Corporate Income .	301	434	585	725	665	707
Total	1,036	1,945	2,520	3,083	3,198	3,439
ALLOCATION OF INCOME						
Dividend Payments (Gross) .	657 63·3%	620 31·9%	711 28·2%	716 23·4%	867 27·1%	928 27·0%
Tax Payments (excluding Income Tax deducted from Dividend Payments)	90 8·8%	658 33·8%	577 22·9%	782 25·4%	942 29·5%	978 28·4%
Gross Undistributed Profits including Provisions for Depreciation, Stock Appreciation and Dividend and Taxation Reserves	289 27 9%	667 34·3%	1,232 48·9%	1,585 51·2%	1,389 43 4%	1,533 44·6%

Sources : As in Table 1.

In 1938 63·3 per cent. of corporate income went to the shareholders ; in 1946 31·9 per cent. ; and in 1953 only 27 per cent. In contrast we have an increase in the share taken by taxation—in 1938 8·8 per cent. of corporate income went in this way whereas in 1953 the proportion was 28·4 per cent.—and in the amount retained in the business. Comparing 1938 and 1953 we find that total corporate income was higher in 1953 by £2,403 million, dividends by £271 million, taxation by £880 million and gross undistributed profits by no less than £1,244 million. It is clear that the decline in the share of dividends in personal income and in the standard of living of shareholders has been due to the substantial fall in the proportion of corporate income distributed to shareholders ; that the increase in dividends has been very much less than the increase in profits.

EXPLANATIONS

An examination of Table 3 suggests that corporate taxation has had something to do with the relative decline in dividends and it is well known that the tax rates applicable to companies have increased substantially since before the War. Assuming no dividends were paid about 31 per cent. of a company's profits went in taxation in 1938 : under the 1952 Finance Act the proportion was to vary from 50 per cent. to 65 per cent. depending upon the relation of chargeable profits to standard profits under the E.P.L. legislation. In addition to the general increase in rates the post-war company tax structure has discriminated against dividends. Whereas the 1938 profits tax (N.D.C.) taxed all profits at the same rate (5 per cent. deductible for income tax purposes) the post-war

profits tax has taxed distributed and undistributed profits at different rates. The rates imposed under the 1951 Finance Act were 10 per cent. on undistributed profits (deductible) and 50 per cent. on distributed profits (deductible). The discrimination still exists; current rates being $2\frac{1}{2}$ per cent. on undistributed profits (non-deductible) and $22\frac{1}{2}$ per cent. on distributed profits (non-deductible).

Because company tax rates have increased it is obvious that if boards of directors wish to plough back the same proportion of profits as they ploughed back in 1938 then they must allocate a smaller proportion of total profits as dividends. A similar argument applies if total real profits have remained constant (money profits have risen) and it is desired to plough back the same amount of real profits as in 1938.

As it is possible that boards of directors in the real post-war world have tried to behave in a way similar to that mentioned in the previous paragraph these considerations may have had some effect in bringing about the changes set out in Table 3 and, of course, the discriminatory nature of the profits tax has been an added inducement to pursue conservative dividend policies.

The explanation suggested so far might be accepted as the answer to our problem if there was more or less complete conformity between the reduction in dividends and the increase in taxation—though, of course, even then we would be foolish to rule out other explanations just because of a nice arithmetical fit. But as Table 3 shows no such conformity exists: the fall in the share of dividends is associated not only with an increase in tax payments but also with an increase in undistributed profits. In this context, however, Table 3 may be a little misleading as the totals given for gross trading profits and gross undistributed profits are inclusive of provisions for depreciation and stock appreciation. During years of rising prices stock appreciation may be very substantial and this makes comparisons with other years very difficult. It is probably better to exclude the 1946, 1948 and 1950 figures from the comparison and focus attention on the differences between 1938 on the one hand and 1952 and 1953 on the other. These are years when stock appreciation was negligible.

Some have explained the revealed shift from dividends to undistributed profits and the fact that increases in taxation have not affected undistributed profits by making reference to the requests of successive Chancellors of the Exchequer for dividend restraint or to the feeling that dividend restraint was adopted because it was thought to be good for industrial relations. It seems to me that though some weight should be given to these ideas they do not by themselves constitute a satisfactory or sufficient explanation of the changes that we have noticed. I would argue that the shift can best be explained in terms of the combination of a period of inflationary pressure with the fact that many boards of directors have a particular attitude towards their shareholders. Both factors are necessary. The explanation runs as follows.

For a variety of reasons—most of them highly respectable—many boards of directors do not think of the shareholders as individuals entitled to most of the profits; on the contrary they tend to give priority to increasing the welfare of employees at all levels and to expanding the business by ploughing back profits. All this is fairly familiar: what is interesting is the effects that follow the combination of this attitude of mind with rising prices and profits.

The premise is that on the whole shareholders are reasonably satisfied if the rate of dividend is not reduced. Now dividends are related to issued capital. In a period of rising prices and profits the maintenance of the same rate of dividend is equivalent to a reduction in the proportion of profits distributed and, of course, to a reduction in the real income and standard of living of shareholders (assuming they do not sell capital assets). Our argument is that directors though rarely prepared to make trouble with their shareholders by reducing the *rate* of dividend are, nevertheless, not seeking continuously to reward them. The rising profits and prices of recent years have, therefore, permitted them to reduce the share of profits distributed while at the same time maintaining and in many cases increasing the rate of dividend.

I feel, therefore, that even in the absence of higher rates of company taxation and government requests for dividend limitation that shareholders would have suffered—not because any great managerial revolution took place but because of the inflationary pressure of recent years. Nor do I want to suggest that boards of directors have consciously decided to reduce the rewards of their shareholders: having increased dividend rates they probably feel that they have done well for their electors. The whole movement has been to some extent an accidental by-product of inflation.

There are signs that shareholders are likely to benefit in the near future. A rather different political atmosphere, the stabilisation of the price level, lower company taxation, the influence of take-over bidders, the mere passage of time which enables people to look back and realise what has happened; all these are factors likely to lead to an increase in the income of shareholders. Even so I do not think that our enquiry has been in vain for we have indicated the importance, in this field, of inflation—which may well occur again in the not too distant future—and it seems to me important that some of the less obvious repercussions of this phenomenon should be appreciated and understood.

Manchester University. DAVID WALKER

Exports Against Foreign Currencies

By H. E. Evitt

IT is true that sterling has now almost regained all its former international prestige and that it now finances more than one half of total world trade. It is also true that this widespread use of sterling has not arisen simply because it is the currency used in the settlement of transactions between the large and important group of countries whose currencies are based on sterling and the non-sterling, non-dollar countries, but also because many countries whose currencies are not widely in demand elsewhere use sterling for the settlement of current transactions between themselves. Further, the impact of Exchange Control regulations, from their inception down to the present day, has made sterling the only officially approved method of settlement for current transactions between the sterling group and quite a number of foreign countries. The tendency has been, therefore, to forget about foreign currencies as instruments of payment and by far the greater part of the commercial world in this country thinks only in terms of sterling.

It is becoming increasingly evident, however, that both consumers and suppliers abroad have, in a large number of cases, regained full confidence in their own currencies and are as anxious to calculate prices and profits in terms of local currency as are the British. Moreover, competition for foreign markets is growing ever fiercer and enterprising sellers in countries producing similar ranges of goods to those of Britain are looking for every possible means of attracting foreign buyers. Not the least of these means is the practice of quoting an overseas buyer in terms of his own currency, and on a c.i.f. basis, so that the buyer knows exactly what the goods are going to cost him without becoming involved in any foreign exchange transactions. These complexities and risks are, of course, thrown on the seller but their acceptance is only part of good salesmanship. British traders will have to become aware of this situation and shape their policies and practices to meet those of their foreign rivals.

Exhortations by Government departments and official spokesmen to British industry in general to export, and to keep on exporting, have certainly not been lacking. The latest piece of propaganda has been the direct circulation to a large number of small firms of an invitation to consult the Government departments concerned on the problem of commencing to export their products or to step up an existing export volume. The business of exporting is, however, far too complex to be handled by amateurs. In its initial stages it is also a very troublesome and expensive business which needs the constant attention of an expert staff and the wholehearted personal efforts of at least one high executive. The risks encountered by a new entrant to the export trade are far from sufficiently appreciated. The basic requirement of intensive market research to discover whether any given product will be acceptable in an overseas market, or whether it will need modifications to suit it to local tastes, is given far too little thought and effort. High executives are so tied by their existing duties that they cannot make personal visits to projected new markets to study local conditions on the spot and, what is equally important, to discover for themselves the most suitable local agent or distributor.

It is, of course, completely foreign to the tradition of Government departments directly to recommend any individual or group as being suitable for a certain purpose. Otherwise, it is certain that official advice to a small manufacturer would be to ally himself with one of the big firms of export merchants whose livelihood depends on their efficiency in exporting and whose business it is to have the greatest possible knowledge of the markets which they serve. These merchant houses specialise in particular territories and in particular ranges of goods. No firm can be completely expert in trade with countries from China to Peru, or in goods ranging from tin tacks to tram-cars. The specialist firm knows its job and if it agrees to handle a certain product for a certain territory it becomes the manufacturer's exclusive outlet for that product in that territory. He can be certain that as long as he complies with specifications of manufacture and delivery dates, he will receive prompt payment from the merchant house, and that he will be relieved of all the responsibility and difficulty of finding reliable overseas buyers and obtaining payment from them. It is usual for a basic sales price to be agreed upon between the manufacturer and the merchant house which the latter is authorised to increase by an agreed percentage. This percentage is normally very little, if any, more than the manufacturer would have to pay to an overseas agent were

he conducting his own export business. The merchant house will also advise him on articles and designs likely to prove most acceptable to the markets served and will, in fact, act as his own export experts.

Where the manufacturer is conducting his own export trade, he will quickly discover that the normal commercial risks of the home trade are considerably intensified in the case of overseas trade. He can now, fortunately, insure with the E.C.G.D. against the most vital risks, but he will still meet the foreign buyer who endeavours to wriggle out of a contract on one pretext or other on a falling market. After a brief experience many manufacturers have come to the conclusion that the risks, trouble and expense of export trade are too great for the resulting profit margin. Proposals for the setting up of export groups, with a central export organisation to handle the products of the member firms, have met with small success. Human nature being what it is, each member feels that the central organisation will give preference to the products of some other member and that if he discloses the names of overseas buyers to the central office, other members may have access to them and may develop products which will supplant his own. There is, however, much sunshine as well as cloud over the export scene. The volume of British exports has been steadily expanding, even though at a slower rate than was desired and expected. Prices, on the whole, have remained competitive, but the coal situation is grim and power and transport costs are constantly moving upwards. It must be repeated, therefore, that every possible means of attracting foreign buyers must be tried, including the practice of quoting in foreign currencies on a c.i.f. basis, which can be done in terms of U.S. dollars to many countries whose own currencies are not generally acceptable as a means of payment.

Basically, the calculation of a selling price c.i.f. a foreign port is quite simple, but the currency used should be confined to one of those quoted in the London Foreign Exchange Market and for which there are limits to fluctuation by reason of the existence of official buying and selling prices. These official prices give an overall margin of fluctuation of about 1½ per cent., but most of the current exchange rates are, and have been for some time past, somewhere around the middle point between the upper and lower limits, with the exception of the U.S. dollar which has been persistently near the upper limit for several months. In the case of most currencies, therefore, the margin between current quotations and the official upper limit is not more than ¾ per cent., while in the case of the U.S. dollar the margin is at present negligible.

All that is necessary, therefore, is for the exporter to calculate his sterling selling price c.i.f. the named foreign port and then to convert this into the foreign currency in which he proposes to quote by using the higher (or buying) official rate. For example, if he proposes to quote in French francs, for which the upper official limit is roughly 987·30 frs. per £, and his c.i.f. price would be £10 per article, he would quote the overseas buyer 9,873 F.frs. per article. As long as there is no change in the official buying price for this currency he runs no risk of an exchange loss, but can rather look for a small profit if current rates remain below the official upper limit. His risks are that in certain circumstances, as for instance a return to convertibility of several major currencies, the margin between the official buying and selling prices might be widened (which would, of course, destroy the basis of any calculation as above), or that the authorities in the country whose currency is used for the quotation suddenly decide upon devaluation of

the currency, which would again destroy the basis of calculation. These risks, however, are so small as to be almost negligible if the quotation is being made for immediate acceptance or rejection. A quotation in terms of U.S. dollars on the basis of the upper limit of $2·82 per £ could be made to, say, Poland or Hungary, with the absolute certainty that this limit would not be changed within the day or two which it would take to obtain an acceptance or a refusal of the offer.

It is absolutely essential, however, that the exchange risk should be covered as soon as the acceptance of an offer of sale has been received. If, for example, an exporter offers 1,000 articles at $2·82 each to a Hungarian buyer, and his offer is accepted, he knows that he will in due course receive $2,820. He will, in fact, ordinarily require the Hungarian buyer to open a credit for this amount in his favour with a London bank. Even if time for manufacture has to be allowed, as well as time for eventual shipment of the goods and preparation and presentation of the shipping documents, he should be able to calculate within a little the date on which he will receive the dollar payment. Assuming that this would take place about 2½ months after the date on which he received the acceptance of his offer by the Hungarian buyer, he must *at once* arrange a forward exchange contract with his bank under which the bank agrees to buy from him the amount of U.S. dollars in question, for delivery at his option during the third month from the date of contract, at a rate of exchange which is fixed there and then on the basis of the current market rate for U.S. dollars. The exporter then knows the exact amount of sterling which he will receive when he presents his documents and sells the dollar payment to his bank. This should be slightly more than the sales value calculated in sterling because for his quotation to the Hungerian buyer he has used a rate of exchange higher than that currently quoted in the market. The principle of covering exchange risks by a forward sale of foreign currency to be received is absolutely vital and must never be neglected.

In cases where the overseas buyer has to be coaxed still further, and so far from asking him to open a bank credit providing for payment in cash against documents it is necessary to offer him a period of credit, the procedure is equally simple, although, of course, it introduces the element of the normal trade risk that the buyer may not meet his eventual obligation. For example, goods are offered to a Swedish buyer in terms of Swedish kroner on a c.i.f. Stockholm basis, for delivery within two months and against payment of a 30 days documentary draft drawn by the exporter on the Swedish buyer. The offer is accepted for 1,000 articles at kr.29·20 each, representing the sterling c.i.f. selling price of £2 per article converted at the approximate upper official limit of kr.14·60 per £. The exporter then knows that in approximately 3½ months time (allowing for the time taken in assembling the documents, forwarding them with the 30 days draft to Stockholm, and the collection of the proceeds when the draft matures), he will receive Sw.kr.29,200 in payment for his export. Immediately he arranges to sell to his bank this amount of kroner for delivery at his option over the fourth month from the date of contract, at a rate of exchange fixed at once and which will be applied to the conversion of the kroner into sterling as soon as collection has been effected.

This means, of course, that he will have capital locked up for that period as against receiving immediate reimbursement when the terms of payment provide for the opening

of a bank sight documentary credit. If his credit standing is good, however, and the Swedish buyer is also of good repute, his bank will always be ready to make him an advance against his usance drafts on Sweden up to possibly 80 per cent. of their sterling value. If he is conducting a fairly large export trade with several overseas markets, his bank might agree to open for him an " Exporter's Acceptance Credit," under which he would be entitled to draw clean drafts on the bank at 90 days sight for, say, 80 per cent. of the face value of documentary drafts on foreign buyers handed to the bank for collection and for which the proceeds should be available within the 90 days of the credit. He thus obtains a bank acceptance which he may discount at the finest rates and so finance himself for further business.

Once the exchange risk has been covered by a forward exchange contract with his bank, he has no further worries on this score and if his original quotation in terms of the foreign currency was based, as suggested, on the official upper buying limit, he is also protected against any fluctuations in current market rates which might occur between the time of making his offer and the receipt of the buyer's acceptance of it. There are usually some signs and portents of any change in the official quotations or of an impending devaluation of a currency, and his bank will always be ready to advise him as to the likelihood of any such event taking place if he makes the enquiry before actually putting forward his foreign currency quotation. The enterprising exporter will take pains to make himself " foreign exchange minded " and meet his competitors on level terms.

A Matter of Policy

NOTICE of the change of ownership of the part share-holding in Lloyds and National Provincial Foreign Bank Limited appears in our *Notes and Comments* section on page 206. The two Clearing banks concerned have not dilated the matter, merely expressing themselves satisfied that it is better that the Foreign Bank should be under one ownership. This leaves the public guessing as to the reasons, but at the same time a degree of reticence is necessary if the banks are to enjoy immunity from tedious argumentation on every decision they care to make on what is conceived to be in their best interests. Individual banks have their own ideas on many other matters, as for example, the degree to which control should be decentralised into Local or District Committees of the Board, on premises programmes, and so on. However, since major changes of banking ownership occur so infrequently, there was bound to be speculation in the Press and elsewhere as to the reasons behind this latest event, leading logically to a discussion of the pros and cons of direct ownership of foreign subsidiaries, and of direct representation abroad.

On this particular matter there might be fruitful investigation by reference more to the places where British banks are neither apparently able nor willing to acquire direct representation. In Scandinavia, for example, the banks operate under Royal licences, and it is not open to foreign banks to establish themselves either in Norway, Sweden or Denmark, even if they could see advantages in so doing. The German economy is so closely paralleled by our own that its banking business would be entirely

German-owned on that account, were it not for two exceptions which are in themselves significant. First, there are the usual travel-agency-bankers from abroad, and secondly, the offices of exchange banks in Hamburg (Bank of British West Africa, Barclays Bank (D., C. & O.), Chartered Bank of India, Australia & China, Hongkong & Shanghai Banking Corporation, Netherlands Bank of South Africa, Standard Bank of South Africa, etc.). Hamburg is a Hanseatic port from which flows a vast stream of foreign trade, and where specialised banking knowledge of particular markets can be utilised to the full.

The steady surge of tourist traffic from Europe and America must account for the success of institutions like the American Express Company and Thos. Cook & Son. One has no doubt whatsoever that the British banks with " own-name " offices on the Continent have been able to direct a constant stream of tourist business to their subsidiary companies there. Alongside this flow of small exchange business, commercial connections have grown. The English banks on the spot have been able all the better to interpret for British business houses the commercial manners and customs of the countries where they are established. Recent years in which " export drives " have directed otherwise domestic manufacture and trade into external markets must have underlined the usefulness of such banks, where the hitherto untutored exporter has found nationals of his own country particularly adept in helping him to learn the ropes. More than one puzzled business man on his first trip to Paris must have been put at his ease by an attendant messenger whose French alternated with a homely cockney English.

Where, as in England, the countries abroad are highly industrialised, British banking is content to confine itself to a handful of offices, selected with care to suit particular purposes. In other countries the reasons that operate in the case of Hamburg are behind the decision to maintain exchange banking offices. In the Colonies, the Far East, in India and so on, the retention of British banks is a matter of self-interest for the countries concerned. In this respect the undoubted stability of British banking is first and foremost the key to their success. This can over-ride political and nationalist aspirations, as can be seen from the expansion of Lloyds Bank's business in the Indian continent since independence was granted to India and Pakistan. Two branches have been opened in Madras, others in Chittagong, Dacca, and Karachi. Similarly, the other Exchange Banks have enlarged their operations. Again, the efficiency of British banking, especially in the handling of foreign trade, has led to the opening of many banks abroad where, in spite of local competition, they hold their own and make a profit. Barclays Bank (D.C. & O.) is such a case. And that such banks have been able to hold their own through an era of exchange restrictions (normally giving the indigenous banks almost monopoly rights in exchange business) is evidence of the soundness of decisions and policy behind the maintenance of such offices abroad. In spite of world upheaval, the Eastern Exchange banks remain today as firmly a part of the world's commercial machinery as ever they were—and stronger than ever before. The Chartered, National, Mercantile, Hongkong, Eastern, etc., are honoured names wherever Eastern banking is mentioned.

This has moved us away from the main question of subsidiaries, and whether there is an advantage in direct ownership of a foreign bank. It seems clear that subsidiaries as such are not the question—all banks have an interest of some kind in other

banks, if it is only in Irish or Scottish concerns. Only on the point of foreign banking is there any sharp division of policy. There is the view that the appointment of good local agents abroad will lead to reciprocation of business, whilst direct participation in the foreign country will lead to loss of reciprocity. If there is anything in this argument it is not apparent on the surface. As against this, there is the benefit to be derived from having one's name constantly in the foreign public's eye, and in having one's own employees on the spot where foreign business is to be had. Underlying all this is the profit and loss account. In most cases we know nothing much of the profitability or otherwise of such subsidiaries. We do know, however, that banks whose business is predominantly abroad have made substantial earnings in the past, are paying dividends yet, and, most important, by their operations enlarge our " invisible " earnings of foreign exchange. But it would be fallacious to assume that direct ownership of foreign banks is necessarily the most efficient way to achieve these ends. Until we are vouchsafed more information than we have at present we shall never know.

Notes and Comments

STABLE GOLD RESERVES

A FURTHER proof of the growing strength of sterling was given by the gold and dollar figures for July which showed a deficit of only $4 million despite the transfer of almost $100 million to Britain's creditors in E.P.U. The total reserves now amount to $3,013 million being 77·9 per cent. of the last peak of $3,867 million in June, 1951. (See the table below).

STERLING AREA'S GOLD AND DOLLAR RESERVES
ANALYSIS OF GOLD MOVEMENTS
(in $ million)

End of Period or Month	Gold Payments (−) or Receipts (+): Net Surplus or Deficit	of which: E.P.U. Settlement	of which: Balance with Rest of the World	Defence Aid	Change in Reserves	Reserves at End of Period or Month	% of last Peak of $3,867 million in June, 1951
1951							
1st half monthly average	+ 71	+ 7	+ 64	+ 23	+ 94	3,867	100·0
2nd half monthly average	232	43	− 189	+ 6	− 226	2,335*	60·4
1952							
1st half monthly average	− 141	59	82	+ 37	− 97	1,685	43·6
2nd half monthly average	+ 19	+ 14	+ 5	+ 38	+ 27	1,846*	47·7
1953							
1st half monthly average	+ 59	+ 23	+ 36	+ 28	+ 87	2,367	61·2
3rd quarter monthly average	+ 12	6	+ 18†	+ 28	+ 40	2,486	64·3
4th quarter monthly average	+ 52	− 2	+ 54	+ 19	+ 71	2,518*	65·1
1954							
1st quarter monthly average	+ 36	+ 2	+ 34	+ 20	+ 56	2,685	69·4
2nd quarter monthly average	+ 104	+ 20	+ 84	+ 6	+ 110	3,017	78·0
July	+ 80	+ 4	− 76	+ 15	− 4‡	3,013	77·9

* After payment of $181 million on December 31 each year to service various North American loans; these items are not included under " Balance with Rest of the World."
† After payment of $39 million to Canada under new agreement for amortising 1942 loan.
‡ After special payments totalling $99 million in mid-July to Britain's creditors in E.P.U.

The \$98·75 million paid on July 13 to seven European creditor countries represent the initial immediate cash transfer in part settlement of the United Kingdom's debt to the European Payments Union totalling \$395 million. These cash payments of 25 per cent. were arranged in bilateral agreements between Britain and her creditors in June when the E.P.U. clearing arrangements were extended for a further twelve months to June 30, 1955. The remaining 75 per cent. of this debt was settled by funding operations over five, six and seven years.

Without these special gold and dollar transfers, the total surplus would have amounted to \$95 million. If we deduct defence aid receipts from the United States in July of \$15 million and a net receipt from E.P.U. of \$4 million in respect of the June settlement, we are left with a surplus of \$76 million representing all balances with countries outside E.P.U. which compares with only \$14 million in the previous month and \$51 million in July last year.

The United Kingdom's surplus with the European Payments Union in July was exceptionally high. It amounted to £9 million of which £4·5 million were received in gold or dollars during August.

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CAPITALISING BANK RESERVES

UNDER present less restrictive conditions, schemes for the recasting of banking capital, involving the capitalisation of reserves in one form or another, are becoming more frequent. The two most recent schemes of this kind are those announced during the past few weeks by the Royal Bank of Scotland and the Mercantile Bank of India. Meetings of the general court of the Royal Bank will be called before long to approve an increase in the bank's capital, which is composed of one class of stock only, to £5,950,000. This will involve the creation of £1,700,000 of additional stock, which is to be issued fully paid to stockholders in the proportion of £2 of new stock for every £5 held.

The Royal Bank has a published reserve fund of £4,877,216, apart from its inner reserves, which are doubtless considerable. In common with those of many other banks, the dividend was raised in the last financial year (to October 10, 1953) after remaining unchanged for many years in succession. The increase was from 17 per cent. to 18 per cent., and the interim distribution of 9 per cent. for the current financial year has maintained the higher rate.

The proposals of the Mercantile Bank of India board are more complicated. In the first place, each of the "A" and "B" shares, now of £25 nominal value with £12 10*s*. paid up, is to become five shares of £5 with £2 10*s*. paid, while each of the "C" shares is to be divided into five fully-paid £1 shares. Following these changes, a free issue of 420,000 additional £1 "C" shares will be made on the basis of one "C" share for every "A" and "B" share of £5 and two for every five of the "C" shares in their new form. The issue will be made from the capitalisation of reserves, including the whole of the share premium account.

Announcing that a sum of £670,000 has been transferred from the bank's inner contingency account to the reserve fund, the directors state that they hope the present rate of dividend will be maintained on all classes of share, including the new "C"

shares, for the second half of the current year, but add that dividends thereafter must necessarily depend upon results. Apart from any benefit the shareholders receive through the reserve capitalisation, the splitting of the "A" and "B" shares should have the advantage of making the shares more marketable.

BRITAIN'S OVERSEAS INVESTMENTS

THE latest annual report of the Bank of England contains the customary statistics on the use of sterling in trade outside the sterling area, and is also accompanied by a paper continuing the series of estimates, first published by the Bank in 1950 in a pamphlet entitled *United Kingdom Investments*, 1938–48. These estimates cover the investments of residents in the United Kingdom through the medium of securities known to the London Stock Exchange. It should be made clear that they do not set out to cover all British overseas investments, and are therefore not comparable with the figures contained in the Balance of Payments White Papers, since they exclude investments in a number of companies whose activities are divided between home and abroad—such as insurance and shipping concerns.

It is estimated that the nominal capital values of United Kingdom investments abroad increased by £2 million in 1952 to £1,985 million, although investments in Commonwealth countries declined during the year by that amount. Investments in foreign countries dropped by £4 million, and unclassified investments (which include investments in the oil industry) rose by about £7 million. Details of changes in foreign investments show a net addition of £20 million in the nominal value of United Kingdom holdings of U.S. domestic securities, partly acquired from the proceeds of sales of other securities on the U.S. markets. This increase was more than offset by small reductions in U.K. investments in most other foreign countries.

Interest and dividends received by the United Kingdom on its holdings of overseas securities, which in this series of estimates reached its highest point in 1951, fell by £6 million to £154 million in the following year. Practically the whole of the decline occurred in dividends on shares, evidently reflecting the effect of the decline in commodity and metal prices in 1952, following the boom caused by the outbreak of the Korean war. The Bank records that lower dividends declared by rubber, tea and many mining companies affected the income figures from British Central Africa, South Africa, India, Ceylon and Malaya. This decline, however, was partially offset by the higher dividends paid in 1952 by oil companies, in some cases on increased share capital.

A BANKING SEPARATION

AN agreement was reached last month whereby Lloyds Bank will acquire the National Provincial Bank's holding of shares in Lloyds and National Provincial Foreign Bank. Lloyds Bank will thereby double its present holding of 12,000 shares of £50 each.

The Foreign Bank began its career as Lloyds Bank (France) Limited in 1911, when the business of Armstrong and Co., of Paris, was taken over. Six years later the National Provincial Bank was invited into partnership, and the name of the bank was changed to Lloyds Bank (France) and National Provincial Bank (France) Limited; the present name was adopted in 1919. Another change will follow on January 1, 1955, from which date the bank will again be a wholly owned subsidiary of Lloyds Bank. The

title has yet to be determined, and it seems unlikely that the original name of Lloyds Bank (France) Limited will be re-adopted since the bank now extends into Belgium, Switzerland and Monaco.

The reason for the parting is stated to be that " both parties feel that there are advantages to be derived from the substitution of sole ownership for the present joint proprietorship "—a common enough truth. It is not clear, however, what has suddenly accentuated it after thirty-seven years of double harness. The break is naturally conducted in an amicable fashion, and the National Provincial Bank will continue to use the bank's facilities. The policy of the Foreign Bank will remain unchanged—in the initial stages, at least. Without fear of restrictions on the executive caused by differences of outlook on the board, scope may be found for wider and increased activity later on.

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MORE ELECTRICITY STOCK

THERE was no surprise in the City at the announcement last month of a new issue of British Electricity Authority stock. The growth of the public utility industries' borrowing from the banks had already indicated that the time was near when these advances would be funded by an issue of stock to the public. The size of the issue was also much as expected, and the £100 million it raised was all but equal to the Authority's temporary borrowing, which totalled £104·6 million on July 31.

The new stock carries 3½ per cent. interest, is dated 1976–79, and is an addition to the £150 million of Electricity 1976–79 stock previously outstanding. Two small advantages attach to this further issue of an existing stock, the more important being that the total of £250 million of the stock now in issue is a more sizeable figure by present-day standards, and the stock should command a freer market on that account. Moreover, the form of the new stock avoids yet another addition to the multiplicity of Government and Government-guaranteed stocks now on the market.

The price of 100½, at which the new stock was issued, makes an interesting comparison with the issue price of 99 at which the previous issue of the same stock was made in May 1950, when, of course, the maturity dates at the time of issue were further ahead than they are at present, and therefore called for a larger return than they would in the same circumstances at the present time. That the authorities are now in a position to raise money on the same stock at a price 1½ per cent. higher than in 1950 is a measure of the ground recovered by gilt-edged prices since the period of high money rates and low security prices in 1952.

At the price of issue, the yield on the latest tranche of Electricity 3½ per cent. 1976–79 was almost identical with that offered by the existing stock, after allowance for interest included in the price of the latter, the issue terms thus providing no particular inducement to subscribe. This suggests that the authorities were quite prepared to see a large slice of the new stock subscribed by the public departments to make good a shortfall in other subscriptions. The result of the offer suggests that the departments were, in fact, called upon to take up a considerable part of the new stock. Allotment in full was made to applicants for amounts up to £250,000 and larger applicants received 78 per cent. of the amount subscribed.

VALUATIONS FOR ADVANCES

THE valuation of house-property for loans by building societies is the subject of a pertinent article in the August issue of *The Building Societies' Gazette*. The writer discusses the merits (or perhaps, the demerits) of taking a basic year like 1939 and adopting a formula by which values should be raised to take account of price rises from then on. Or, he suggests, some more scientific approach, for example, the ascertainment of *replacement* costs, might be attempted. The arguments, if not conclusive, are at least interesting, and they indicate all too well the effects of years of restriction and control on the riddle of values. Happily, or so it would seem to the banker, whose day by day decisions must comprehend a far wider range of collateral security, the specialised lending of the building society will soon reach the more satisfactory basis of the price ruling in a freely competitive market.

DEATH DUTIES

SIXTY years ago the top rate of estate duty was 8 per cent. Now it is 80 per cent. In 1855 these duties raised just about 13 per cent. of the total revenue; today they give us but 3½ per cent. In these round figures the increasing effect of death duties on the distribution of personal wealth, and the decreasing significance of the duties as a means of raising revenue stand in stark contrast. A timely article in the August number of *The Midland Bank Review* draws attention to the need for a thorough inquiry into the whole system of death duties, particularly now that there is a Royal Commission dealing with the taxation of profits and income. The yield is uncertain; the incidence on particular estates irregular; the breaking up of large estates has had a deleterious effect on the proper maintenance of agricultural property. Indeed, whole areas of land may suffer a decline merely by reason of successive deaths in a family taking place at short intervals. Taxation may be at its best when progressive, but inquiry is imperative when it can be shown that the national economy may be harmed thereby.

FOR BOYS AND GIRLS

THOSE deluded into regarding banking as a hideous monopoly should observe the serious competition for new business, in which up-to-date publicity methods are employed. As an example of this, we commend the newest booklet issued by the Midland Bank, *This Way to Independence*. The idea behind this approach to the rising twenty-ones is to get them into the bank's books as early as possible. Its appeal is three-fold; first, it acknowledges the right of the young to have their own minds, and be capable of adult decisions; secondly, it answers the first elementary questions regarding a banking account, namely, how does one pay in money and draw it out; thirdly, it invokes a mild sense of humour to appreciate the illustrations of the text, which are mainly caricatures. The advantages of a bank account are clearly explained, and, given a wide circulation, the booklet should prove effective in adding to the number of the bank's customers.

AN EXPORT GUIDE

WE have received a 35 page booklet entitled *A Handbook for Exporters*, which the Westminster Bank has issued. It is primarily designed for what might be termed the "elementary" exporter, and in consequence does not pretend to be a comprehensive survey of export practice; for more help in this way the bank, of course, offers its specialised services. The text is clear and the explanations lucid. A helpful specimen C.D.3 form is interleaved.

There are also four specimen bill forms of full size which should do much to assist the merchant, though strangely enough a specimen bill under a bank credit is not included amongst these—presumably the bank reckons on being brought into consultation when drawings are made under credits. The first half of the booklet deals with marketing and packing, etc., problems, and this is necessarily compressed and general. Methods of payment are dealt with in more detail, and the whole should adequately serve the purpose for which it is intended.

BANK CLERKS' ORPHANAGE

THE Bank Clerks' Orphanage held its 71st annual meeting on August 17. Sir George Abell, a director of the Bank of England, was elected a vice-president in succession to Sir Dallas Bernard. Mr. A. W. C. Dascombe, secretary of the Bank of England, was re-elected chairman of the general committee for a further year. Mr. F. I. Ashton, controller of administration of the Midland Bank, was elected deputy-chairman of the general committee on the resignation of Mr. G. Dodd, staff manager of Lloyds Bank, who held this office for a term of four years.

The annual report of the orphanage for the year ended March 31 shows an income of £77,490. As total expenditure amounted to £88,825 (compared with £81,342 in 1953), there was a deficit on revenue account of £11,335. The capital account, however, shows that receipts from donations of £20 and over and from legacies reached £22,715—a figure which is regarded as highly satisfactory. Not less than £81,992 of the total expenditure was spent on the education, maintenance, and clothing of the children. This item may well continue to increase as the cost of education is still going up. Another reason for the increased expenditure was the growth in the number of children in the care of the orphanage which for the year ended March 31 amounted to 779, a figure never recorded before.

Overseas Notes and Comments

FALLING INTEREST RATES IN WESTERN GERMANY *

SINCE the end of the Korean crisis, the Bank deutscher Länder has reduced its discount rate five times: the first reduction took place on May 29, 1952 from 6 per cent. to 5 per cent. and the last one on May 20, 1954 from 3½ per cent. to 3 per cent. which is the lowest Bank rate since 1905.

This reduction is not connected with any trade cycle policy for the upward movement of production and employment is still continuing. Rather, the issuing bank is obviously following the downward trend of interest rates which rule in the free money market. The market for short-term money is still very liquid. This is mainly due to the continuous and high inflow of foreign exchange from the export surplus which results in corresponding payments by the issuing bank to the economy. But the most important aim of the Bank deutscher Länder is to continue reducing the rate of interest which is still regarded as being too high.

The effectiveness of the change in the discount rate depended on how far the reduction of interest by the issuing bank would be passed on by the credit banks to the

* See also the article "Western Germany's Capital Market still Lagging," Volkmar Muthesius, *The Bankers' Magazine*, August, 1954.

economy. As is well known, the debit interest of the German banks has hitherto automatically been linked to the Reichsbank rate, whilst new negotiations had to take place between the board of control of the banks and the leading associations of the credit institutions after every discount change with regard to credit interest. As a result of the considerably reduced margin between the banks' debit and credit interest caused by the previous reduction in the discount rate, the banks have been promised (after the reduction in the rate of discount from 4 per cent. to 3½ per cent. in June, 1953) that, if there should be a further reduction, they would not have to do the same with regard to their debit interest; rather, the previous rate of interest of 5 per cent. (to which has to be added a credit commission of ¼ per cent. per month amounting to 3 per cent. per annum) ought to be considered as the minimum rate to borrowers. Nevertheless, an agreement about a reduction of debit interest by ½ per cent. came into being at the end of June. On the other hand, credit interest was also reduced by ¼ per cent., with the sole exception of the rate for normal savings deposits which remained unchanged at the rate of 3 per cent.; the savings banks had energetically opposed any reduction of the interest paid for savings deposits. This interest, it was said, is already too low compared with the interest paid on mortgage and other bonds. As from July 1 banks and savings banks grant interest of ½ per cent. for money free of commission and 1 per cent. for money which is subject to commission. From 3 to 4 per cent. is paid for savings deposits (depending on the period of notice) and 2 to 3½ per cent. for term money.

These changes in the rate of interest have now the effect that part of the long-term money is withdrawn by the banks and is invested in fixed interest-bearing securities. On account of the so-called law for promoting the capital market (*Kapitalmarktförderungsgesetz*), which is still operative, these yield a real interest of about 5½ per cent. which, in addition, is free of income tax. The turnover of these securities, and especially of 5 per cent. tax-free mortgage bonds for house-building, have thereby been considerably increased, and the mortgage banks could already increase the selling price from 93 per cent. to 94 per cent. and in some cases to 95 per cent. This has had the result that the reduction in interest has already been felt on the capital market.

In the Press there has recently been increased discussion as to whether the moment has not come to exchange the rigidity of the banks' interest rates in favour of free competition in this sphere. After the experience which Western Germany has had in other sectors with the lifting of all restrictions, it may be assumed that a liberalisation would result more in a reduction than in an increase of interest rates. But taking all factors into account, the present economic development may not yet justify such a measure.

M. MENDÈS-FRANCE'S 230 DAYS

ON August 7 M. Mendès-France was granted *pleins pouvoirs* until March 31 next in order to go forward with his plan for the rehabilitation of his country's economy. He is the ninth Premier in thirty years to whom the French parliament has accorded a temporary dictatorship. What use did his predecessors make of their exceptional powers? Poincaré, in 1926, "saved the franc"; of the others, Pinay is remembered for some cautious stabilising—the rest are perhaps

best forgotten. It is not a cheerful augury for M. Mendès-France in his 230-day enterprise, particularly as he has been warned that his plans must be carried out without any net increase in expenditure. Subject to this restriction, the Assembly has given him permission to create conditions in which French agriculture and industry, now largely priced out of the market, shall once again be able to face international competition. The details of his programme are very vague but the re-adaptation of the whole complex of productive forces is central to it. To secure that massive change, M. Mendès-France proposes to hasten the liberation of imports, within E.P.U., from the present 65 per cent. ; to reduce or wipe out the numerous subsidies that are cushioning high-cost producers ; and to switch the funds thus liberated to stimulating flexibility among masters and men.

Haste is necessary. American aid and expenditure (excluding $775 million Indo-China assistance) may have been as much as $750 million for the year ended June 30 last : the succeeding twelve months will see nothing like such a sum. The gap, as it grows, must be covered by real earnings. The Second Monnet Plan (1954–57) wisely budgets for no reduction in imports—indeed, they must surely rise in volume—but it does call for a considerable increase in exports. In the first seven months of the present year exports have risen by 6 per cent. compared with the same period of 1953. That, however, is not good enough, not only because 1953 was a year of export stagnation, but also because imports must be allowed to increase if France is to cease being an unbearable nuisance in E.P.U. and a helpless meddler in North Africa.

It may well be that the French Government's attitude towards the European Defence Community treaty will bring about the fall of M. Mendès-France long before his allotted span of " full powers " is completed, perhaps before this note is in print, but the economic problem will remain—and so will the problem of the French Union, which cannot be solved unless the mother country's balance of payments and budget are put in order.

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EUROPEAN EAST-WEST TRADE

The Economic Commission for Europe, which has its headquarters in Geneva, is a useful body if only because the Iron Curtain countries are represented on it and its reports therefore display an impartiality that is getting rare elsewhere. The Commission's latest bulletin (Vol. 6, No. 2) carries an article on East-West Trade. Though the figures cover no month later than December, 1953, the subject is so topical that the views and statistics are still of interest. The volume of imports into Free Europe from the Iron Curtain countries is less than a third of what it was in 1938, while the volume moving in the opposite direction is little more than half the pre-war level. In money terms the Communist exports fell from US$990 million in 1952 to US$918 million in 1953, the Free Europe exports in these two years being $739 million and $789 million. The Commission's report states that the diminution of total trade revealed by these figures is somewhat misleading as an upward turn occurred about the middle of 1953. This change was owing to changes in economic policy in the U.S.S.R. and her satellites with a view to increasing the supply of food and other consumer goods. The Commission expects the new trend to continue through 1954 but there is no sign of it in the United Kingdom trade returns for the first half of the current year. Our imports from Eastern Europe tot up to almost exactly the

same figure (£28 million) as that for January–June, 1953, and our exports and re-exports (£16·4 million) are little more than £1 million more. Though other nearer Western countries may have increased their purchases and sales somewhat it is significant that what improvement took place in 1953 was almost exclusively concentrated in the U.S.S.R. None of Russia's satellites, not even East Germany, seems to have very much to sell. Poland exported 9 million tons of coal, but this is a mere two-thirds of what she exported in 1949 and she seems to be short of other commodities. Oil exports are increasing: even so, the total sold in 1953 was less than 2 million tons, a trifling amount when set against pre-war disposals. Timber sales rose sharply owing to the United Kingdom's action in practically doubling her imports from the U.S.S.R.—but that did not help the satellites.

Altogether, it looks as if the Eastern cupboard is rather bare in spite of about eight years of Communist development. And yet there are signs that the East-West trade icefield is shifting, perhaps cracking. The Iron Curtain countries are desperately anxious to get goods of all sorts and will doubtless make big sacrifices to obtain them. One important indication is the elaborately organised Leipzig Fair due to be held from September 5–15. That the United Kingdom is interested is demonstrated by the fact that no fewer than 150 British firms will exhibit. Half of them are publishers—it must be remembered that Leipzig used to be the book centre of Europe—but over 40 engineering concerns have thought it worth their while to show.

AN E.C.G.D. FOR U.S.A.?

A RECENT article by Mr. A. M. Strong, an American banker, in *Burroughs Clearing House* advocates the introduction into the United States of export credit insurance, as has been done in countries as different from each other as Great Britain, Japan and Canada. Mr. Strong, however, is unlikely to make many converts until he can get clear in his own mind the difference between somebody who grants an exporter credit (usually in order that the latter shall in turn be able to grant credit to his customer) and somebody who is willing to insure an exporter against the risks that are not covered by a Lloyds policy. It appears that American exporters are feeling the competition of exporters elsewhere who are offering deferred payment on a scale beyond the means of an unassisted seller. Appeals to the Export-Import Bank to step in have fallen on deaf ears, while the commercial banks do not undertake long term lending. So far, the article covers familiar ground but the English reader finds himself at sea when the writer goes on to say that "American manufacturers seeking the financing of their foreign bills without recourse find no favourable response from the banks." Why, one wonders, should a banker abandon his normal right of recourse? The next section of the article, though still confused, suggests that Mr. Strong believes that were the Export-Import Bank, or the Federal Government directly, to set up an institution on the lines of our Export Credits Guarantee Department, it would become possible for an unspecified someone to negotiate export bills without recourse and to grant years and years of credit. It is further argued that a special fund should be set up "for the specific purpose of helping American exporters and no one else, so that it could not be used for development projects in other countries."

We cannot believe that all U.S. bankers are as incoherent as this. Suppose an American E.C.G.D. is set up; suppose it grants credit insurances of the current British

type (as extensive as any now available) to one of the customers of Mr. Strong's bank in respect of a shipment of capital goods to Chile, payment for which is to be made over five years. Will the bank thereupon grant that length of credit to its customer, and grant it without recourse? And if not, why not?

Unfortunately there is some confused thinking on this topic here in England. Examples can be found in Hansard and our own newspapers of a failure to appreciate the distinction between insuring export risks and lending money to exporters, a failure for which neither E.C.G.D. nor the banks are to blame.

SELLING TO THE U.S.A.

EVERY few months a fresh pamphlet comes to add itself to its already numerous predecessors dealing with the importance of earning dollars. The latest arrival, *Exporting to the United States* (H.M.S.O. 3s. 6d. net), a revised edition of an earlier Board of Trade booklet on the same subject, can be heartily recommended. Not only is it written in good clear English but it deals with every facet of the problem. And getting one's goods on to the American market *is* a problem; so is the keeping of them there afterwards. There are patriotic balance of payments reasons for endeavouring to sell British manufactures in the United States but it is unreasonable to expect exporters to undertake expensive journeys and selling campaigns unless they have a reasonable chance of making appropriate profits. If we have a criticism to offer it is that the pamphlet under consideration does not give sufficient weight to the undeserved ill-fortune that many of our exporters have met with in the past through lack of adequate information services. The burned child not only fears the fire but will also tell others of his unhappy experience, thus creating an atmosphere of timorousness in which every alleged danger is magnified. To-day, the auxiliary services available to exporters are not only more numerous but also far more efficient than ever before. The various advisers have made great strides in learning their jobs and they can now supplement their somewhat timeworn general injunctions with a mass of detailed guidance based on nine years' experience of what really happens. Yet unless the American market can be made to look more attractive than other competing outlets exporters will continue to be deterred by its demand for high quality and expensive salesmanship and its reputation for uncertainty. The writers of the pamphlet are evidently not unaware of some such feeling and it is therefore to their credit that they have nevertheless described frankly the principal Government-made hindrances. The elaborate regulations regarding the imports of foods, drugs and cosmetics, the grievous Buy American Act; the Flammable Fabrics Act, all of these are dealt with adequately but not enough is said of the machinery whereby a hard-earned market can be snatched away if the American manufacturer can establish that foreign competition is knocking him out. Swiss watches are the most recent victims of this Escape Clause as it is called; tomorrow, if local producers get their way, it will be British cycles. None but the Americans can end this unhappy state of affairs but unless Britain and the other exporting countries continue to air their grievance reform is unlikely.

The pamphlet is to be commended for stressing the continental extent of the United States, and the numerous factual appendices are followed by a useful map showing the principal trade areas and their various predispositions for high quality goods. So far as

we have seen there is only one error of importance in the text: the Institute of Export is wrongly described on page 51 and is still shown with the address it left eighteen months ago.

U.S. FARM PRICES SUPPORTS

WHEN Roosevelt instituted agricultural subsidies through the Commodity Credit Corporation in 1933 the move was regarded as a temporary expedient to tide the farmers over a particularly bad period. The plan was double-barrelled: the nation would pay the farmer whatever was needed to bring the price of his product up to a high percentage (say 85–90) of its "parity" price, this last being in most instances calculated on the 1910–14 average; the farmer, on the other hand, would be subject to marketing quotas and acreage restriction. What came as an emergency measure has stayed as an essential but very costly device for retaining the agricultural vote. High costs and good yields have combined to make the subventions heavier and heavier. As at May 31 last the CCC has a total investment in surplus products of $6·1 billion (say £2,180 million). What has alarmed the Administration is not only the vast sums already engulfed by purchases from, and loans to, the farmers but also the rapidly increasing tempo of the disbursements. The amount now "invested" is about double the figure of a year ago; and the CCC's ceiling for borrowing from the State has been raised from $6·75 billion to $8·5 billion, which in turn looks like moving on to $10 billion as the current heavy harvest comes a-begging for "support." But as and when the CCC invests it has to find somewhere to put the agricultural counterpart, and storage costs have to be met. For Government-owned stocks alone, the storage bill is running at the rate of $250 million a year, while the bin capacity of 839 million bushels for grain has proved so inadequate that a whole fleet of idle ships is being borrowed in order to help out. The size of the operations can be illustrated by comparison with the size of the United Kingdom wheat crop of 1953—which was 96 million bushels. Secretary for Agriculture Ezra Benson, speaking last spring, said that if all the CCC's wheat was entrained, the trucks would reach 4,222 miles. And then there are the other grains, the dairy products, the cotton, the tobacco.

All this has accumulated because it is surplus to market requirements at current prices. Every attempt to get rid of it in the United States is frustrated. If CCC butter is offered at cut prices there is a howl from the margarine manufacturers, and so on all along the line. Believing that one way out was to cut support rates where surpluses were heaviest, Secretary Benson reduced support on dairy products from 90 to 75 per cent. of parity but the dairy interests were not slow to point out that they would be ruined because their chief feed crop, maize, was still supported at the 90 level.

It is understandable that the Administration has looked abroad for a solution. Sell at support prices they cannot, so foreign countries, such as Britain, are being offered surplus produce against payment in their local currencies at about market prices through the machinery of the Foreign Operations Administration. When this scheme was started last autumn it was categorically asserted that it would not interfere with established producer interests elsewhere but it is not working out like that, and indeed cannot.

This state of affairs must change sometime. What is the way out? The Senate has recently agreed to a sliding support scale which will slightly ease the burden on the

exchequer but experience in other countries suggests that any solution must involve a direct payment plan whereby the Government allows prices to find their economic level, the producers being paid an outright and open subsidy. The consumer, although he would still be mulcted in his rôle of taxpayer, would get the benefit of cheaper food: at present he loses both ways and costs in industrial production are kept higher than they need be.

STATE BANK OF ETHIOPIA

ON p. 476 of our May issue we remarked that the profits of this bank had been the source of an increase in the capital from $Eth.2 million to $Eth.5 million. We have received a report from Addis Ababa pointing to the bank's profits for the year 1953 at $Eth.2·9 million, which is stated to be a 57 per cent. increase on the previous year's profit, and a record in its history. It is explained that there has been a large increase in foreign exchange commissions, due in part to the incorporation of Eritrea into the Empire of Ethiopia and in far greater measure to the record production and export of coffee which in the present state of the market has produced the highest prices ever experienced in the coffee trade this century. (Coffee represents 59 per cent. of the value of Ethiopia's exports.) Ethiopia's favourable balance of trade for the preceding seven years has averaged $Eth.13 million; for 1953 it is estimated at $Eth.64 million (goods only, at f.o.b. prices in both cases). Allowing for non-monetary gold transactions, and for trade "invisibles" the balances are reduced to, respectively, $Eth.4·2 million (average for seven years) and $Eth.39·1 million for 1953. Increasing prosperity is reflected in the growth of savings and time deposits which have risen in the last year from $Eth.6·8 million to $Eth.8·2 million.

PERSIA RETURNS TO THE WORLD

BETWEEN 1935 and 1950 Persian oil production increased fourfold, the Abadan refinery became the largest in the world and Persia, the *fainéant* landlord, drew a big income entirely created by the enterprise of the Anglo-Iranian Oil Company. In March, 1950, the Persian parliament, having become tired of receiving something for nothing, started the series of moves that led to the shutting down of the refinery in August of the following year. A month ago, three years after the last non-Persian employee of Anglo-Iranian said farewell to Abadan, a new agreement was concluded and soon the oil will flow again. The terms of that agreement have been published in considerable detail and do not seem, in a world of almost lunatic nationalism, to be too unfavourable to the "exploiters" upon whom future profits depend.

Trading relations between the United Kingdom and Persia had shown a good deal of improvement in the months immediately preceding the signing of the agreement, and when our manufacturers secured orders totalling £7 million last June for railway equipment and tractors it did not require much intelligence to guess that an oil settlement was on the way. Among the sufferers from the Mossadeq period were a considerable number of British exporters who found that, though Persians were still able to place orders for goods, Teheran saw to it that payment lagged interminably. There was no excuse for the delay, as Persian exchange reserves were considerable—£70 million last April—and there seems no doubt that the hold-over was deliberately engineered

as part of the pressure to secure a profitable resumption of oil shipments. The Board of Trade has now invited exporters to venture back into this market and there seems no reason why they should not, provided that the credentials of their would-be customers are satisfactory. The expulsion from Persia of the British Bank for the Middle East has forced our exporters to rely on the information supplied by indigenous banks, which is a drawback, but it is believed in London that profitable business can be done if care is exercised.

DIVIDED PAKISTAN

THE grave deterioration in Pakistani political affairs cannot be explained away in simple terms. It was not due to the Communists or the agitators, it was not caused by the over-population of East Pakistan or by the poverty and unemployment there, nor was it the result of a wish to set up an independent state. It is true that the Bengali feels frustrated when he sees so many of the good jobs in his Province going to West Pakistanis and that he resents the fact that although his jute and tea earns more foreign exchange than the products of the West and despite his heavy tax payments, he has the smaller voice in national affairs. None of these factors, however, explains the excesses; but all contributed to that flare-up of local feeling that led to the Adamjee riots in May.

Unhappily the economic position is also deteriorating. Although the first quarter of this year was the fifth successive quarter to show a surplus on the balance of payments, it amounted only to Rs.17 million, less than one-third of the comparable figure achieved in 1953. As the Dominion normally earns the largest surplus at the beginning of the year, the outlook is therefore bleak. Indeed, it is almost certain that a deficit, and possibly a sizeable one, was incurred in the second quarter.

Pakistan relies on cotton and jute for over 80 per cent. of her foreign earnings. In the first four months of the year the volume of exports of both dropped quite sharply compared with the same period last year and cotton exports are likely to fall away still further. Jute is produced in East Pakistan and while the tense political atmosphere may not affect production, it is affecting the output of manufactured jute goods. Indeed, business conditions generally in the Province were disturbed by the events of May.

As well as being faced with a deteriorating economic situation, the Kashmir dispute poses grave external problems for the Dominion. Divided by more than a thousand miles of Indian territory, East and West Pakistan cannot afford the luxury of a family feud—and survive.

Editor's Note

WITH reference to Mr. Panten's article on "The Growth and Activity of the West German Successor Banks" in the August issue of *The Bankers' Magazine*, our attention has been drawn to the fact that in Bavaria the nine successor institutions of the former "big Three" German banks account for approximately 23 per cent. of the total deposits of all Bavarian commercial banks and for approximately 21 per cent. of the volume of short-term lendings granted by Bavarian commercial banks. The corresponding figures given by Mr. Panten for the *whole* of Western Germany were approximately 57 per cent.

September, 1954

The Sources of Finance for Industry and Commerce in Great Britain Since the War

By Arthur Lysons

"THE economy is efficient which is moving round the spiral of low prices—high demand—satisfactory profits—high investment—rapidly improving technology—higher output per head—rising wages and still further expanding demand." The important link here is high investment and this quotation thus indicates the importance of industry having adequate sources of finance to attain this high level of investment, for a high rate of capital creation is a vital factor in securing a progressive economy and a rising standard of living for the country concerned. Admittedly, the existence of finance does not guarantee that investment will take place, but it is certain that without a smooth flow of funds to industry, the necessary level of capital creation would not be attained.

It is possible to consider the sources of finance under six main headings. Three sources of short term finance are trade credits, commercial bills and bank advances, while internal financing by industry itself and the raising of capital on the new issue market are the two main sources of permanent finance. Under the sixth heading two of the most important institutions established after the war for the purpose of facilitating the supply of funds to industry will be discussed. It will be necessary to consider the extent to which industry has relied upon each particular source, the reasons leading to industry's choice and the influence of the special conditions of the post-war era. It must be realised, however, that these various sources are to some extent interdependent in that a greater reliance on one particular source will involve a lesser use of the other sources. Similarly, if several of the sources become depleted then a greater use will need to be made of the remainder. A special relationship between bank advances and new issues exists in that companies may rely upon bank advances to finance the initial stages of capital projects and repay these out of the proceeds of a new issue floated at some later date.

Trade Credits

Trade credits have their importance as a source of finance for industry and commerce in that they are essential if production is to progress efficiently and goods are to flow smoothly from the producer to the ultimate consumer. Trade credits take the form of goods being supplied without immediate payment being demanded but a discount is granted if payment is made within a stipulated period. They are, in effect, a loan of money by the supplier of the goods to the buyer. This type of accommodation is essentially of a short term nature for if one is too tardy in settling accounts difficulty may be found in securing satisfactory supplies in the future. It is, in fact, a common practice for companies to grade their customers according to their creditworthiness—some being granted very favourable credit terms while others are only supplied on a "cash on delivery" basis, so that an abuse of the credit terms offered may lead to goods being supplied in the future on a C.O.D. basis only. It may also become an expensive source of finance for if goods are supplied on terms providing for a $2\frac{1}{2}$ per cent. discount

if the account is settled within a period of three months, then a buyer would be paying a rate of interest on this loan of $2\frac{1}{2}$ per cent. for three months—or an equivalent of 10 per cent. per annum—if he failed to pay for the goods within the stipulated time.

It is possible to conceive of general fluctuations in the use of trade credits—for example, when an increase occurs in times of depression and firms are finding it difficult to meet their commitments—but on the whole, while recognising their importance as a source of short term finance they may safely be regarded as a given factor in the economy.

COMMERCIAL BILLS

A second source of finance to be discussed is that provided by the use of commercial bills. There was a surprisingly rapid increase in the use of bills in the post-war years reaching a peak towards the end of 1951 when an equally sharp reversal of this trend set in continuing until the latter part of 1953 when the figures published by the London Clearing Banks again provided evidence of some increase in the number of commercial bills—a trend which has continued into 1954.

A surprising feature was the increased use of bills for domestic finance. It would be of interest to know the proportion of commercial bills at any one time which relate to the financing of internal transactions but in view of the large number of institutions which deal with commercial bills quite independently it does not appear possible to obtain such an estimate. Apparently, separate records are not normally kept by the institutions concerned to distinguish bills relating to internal transactions from those drawn for other purposes. However, it is possible to estimate the volume of inland bills—defined as those drawn in this country regardless of whether they are payable here or abroad—from the figures for revenue obtained from the stamp duty on inland bills and published in the annual report of the Commissioners of Inland Revenue. The definition used should be noted for it will be clear that though bills drawn abroad are excluded, the resulting figures will include bills drawn for international trade purposes whereas the concern here is only with bills drawn to finance industry and commerce in Great Britain. Nevertheless, they do provide an indication of the rapid increase in the use of bills in the years after the war.

The estimates show the volume of commercial bills drawn in this country as £33 million for 1944–45; £40 million for 1945–46 and £89 million for 1946–47 rising to £275 million for 1950–51 and reaching a peak of £363 million for the year 1951–52 when a sharp reversal of this trend occurred. The trend shown by these figures is, of course, partly due to events in the international sphere such as the increasing value of exports and the boom in commodity prices following the outbreak of the Korean war and the change over from Government to private trading in many commodities. Part of the decline from 1952 may similarly be explained by the comparative levelling off of the increase in the value of exports and the drastic fall in commodity prices. However, the main factor as far as the domestic economy is concerned was doubtless the relative costs of bill finance and bank advances. One of the results of the cheap money policy pursued by Dr. Dalton as Chancellor of the Exchequer was that short term credit obtained by the use of commercial bills became a cheaper source of finance than bank overdrafts. Not only did this result in a switch to commercial bills for financing internal trade, but an increasing use was made of acceptance credits by importers as a method of financing stocks.

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A striking example of such an increase in the use of acceptance credits is provided by the accounts of the Imperial Tobacco Company which showed a total of £10 million acceptance credits in 1947 as compared with the more normal level of £5 million shown in the accounts for 1951 and 1952. The accounts of Gallaher Ltd. also showed an increase in acceptance credits from £1·3 million in 1947 to £3·5 million a year later. No doubt a contributory factor leading to this increase was the heavy drain on their internal resources due to increasing prices and the heavy duties levied in post-war budgets, but it must also have been due to the fact that acceptance credits provided a cheaper source of finance for 90 or 120 days than overdrafts. In fact, it was estimated that the cost of these acceptance credits was less than 2 per cent. per annum which must certainly have been lower than the cost of overdraft facilities even for such preferential borrowers as these tobacco companies and allowing for the fall in overdraft rates in common with other money rates during the cheap money era.

The decline in the use of commercial bills from the beginning of 1952 may similarly be explained on the grounds of the relative cost of bill finance and overdraft finance. The Bank rate was raised to 4 per cent. on March 11, 1952 and the pegged rate for discounting three months prime bank bills became 3 per cent. The cost of acceptance facilities can be taken normally to be at least 1½ per cent. and the stamp of 1*s.* per £100 on a three month bill is equivalent to a further 0·2 per cent. so that bill finance would cost about 4¾ per cent. As the rate of discount on a prime bank bill has been used above, a fair comparison is with the cost of overdraft facilities granted to a borrower whose credit is of the highest standing, which is generally accepted as being about 4½ per cent. Thus, it appears that with the raising of the Bank rate to 4 per cent., overdraft facilities became cheaper than bill finance which would explain—certainly as far as domestic finance was concerned—the trend away from commercial bills as a source of finance for industry since 1952. Moreover, it should be noted that an overdraft has the additional attraction that within the sanctioned limit a borrower only takes and, therefore, only pays for what he needs rather than being committed to the full amount for a fixed period.

The reduction in the Bank rate on September 17, 1953 to 3½ per cent. brought the discount rate for three month prime bank bills down to 2 $\frac{3}{16}$ per cent. The cost of overdraft and bill finance must then have become very similar but the advantage of an overdraft that one only pays for the sums utilised was expected to tilt the scales in favour of overdrafts. However, it is worthy of note that statements of the London Clearing Banks over recent months have shown increases in the number of commercial bills which seems to indicate that the volume of these bills in circulation is again increasing. Whether this is the beginning of a rising trend again or merely a temporary fluctuation is a matter for conjecture. With a 3½ per cent. Bank rate, it seemed reasonable to deduce that the upward movement would not be of the same dimensions as the 1945 to 1952 movement as the cost differential would be negligible. However, now that the Bank rate is 3 per cent. it is possible that there will be a growing resort to commercial bills by industry for its short term finance.

Self Finance of Industry

The financing of industry from its own funds is a source of considerable importance and over the post-war years two contrasting situations have arisen. From 1945 until approximately the end of 1948 industry on the whole was highly liquid having accumulated

a large volume of liquid resources during the war which were supplemented after the war by such non-recurring receipts as refunds of Excess Profits Tax, terminal payments on Government war-time contracts and war damage compensation. The reverse situation existed from 1948 onwards with industry finding its financial resources considerably strained and even experiencing difficulty in financing normal capital replacements. Until 1948, the general position was that industry had ample funds for investment but the limiting factor was the scarcity of physical resources, while from the end of 1948 onwards the situation was reversed with the limiting factor being the shortage of finance. Over the last two years an easing of the strain on industry's liquid resources has become apparent until now the generally accepted view is that the factor limiting investment is neither a shortage of physical resources nor a shortage of finance, but rather the failure of industry to make full use of the resources available. This may be accounted for by industry in general wishing to be sure that the dangers of a slump in America are past before undertaking further investment, or the various strains and misfortunes experienced by industry in the post-war years may now be making it somewhat hesitant in undertaking new capital outlays. However, with the investment allowance of the 1954 Budget and more settled conditions one can reasonably hope for a rise in the volume of investment within industry in the near future.

The liquid position of industry at the end of the war must, however, be viewed in its true perspective. These funds, in fact, reflected to a large extent the running down of stocks and capital during the war and the postponement of normal repairs and maintenance as a contribution to the war effort. These vast arrears of capital investment had to be made good after the war plus, of course, the actual physical destruction of property and equipment which had occurred. In addition, many sectors of industry urgently required modernisation. Huge though industry's funds were—estimated by one authority to have been about £2,000 million—doubts were expressed even in 1945 whether they were in fact adequate to satisfy all these demands. The increasing awareness of a general shortage of funds towards the end of 1948 indicated that the general shortage of physical resources was being overcome and that the substantial supplementary payments being received by industry were coming to an end. The importance of these payments can be judged by the fact that between 1946 and 1948 more than £200 million was paid out in Excess Profits Tax refunds, more than £220 million in war damage payments, over £100 million in post-war credits and important, though undisclosed, terminal payments on wartime contracts.

The fact that from 1948 until recently industry found self financing difficult, does not, of course, lessen the importance of this source of finance. In the inter-war years there was an increasing trend towards internal finance in industry and the conditions after the war gave it added importance. The alternative source of permanent finance is by drawing on the savings of the country through the new issue market, but high levels of taxation, the more equal distribution of income and rising price levels have drastically reduced the volume of savings for risk-bearing investment. It has, therefore, become increasingly necessary and important for industry to finance investment from its own resources, though too great a reliance on internal finance is not necessarily a good thing from a broad economic point of view. For example, firms in a monopolistic position are able to use their funds to strengthen their own position while if industry in general has a monopolistic character—as was the tendency in British industry in the inter-war

years—then the pattern of industry may become increasingly rigid and unprogressive. To put it in another way, if the funds available for risk investment are locked away within industry itself, then enterprising industrialists anxious to develop new and cheaper processes may experience difficulty in raising the required capital to begin production. Circumstances of a similar nature did in fact exist at the end of the war. Industries engaged on war work had to contract suddenly and therefore had little immediate need for their large volume of funds while companies which were forced to close down or reduce their output during the war had need of funds to commence or expand their business again.

There is the further point that if firms rely on high profits to provide funds for investment purposes, they become most susceptible to claims for higher wages, based on the existence of high profits. A company's investment plans might, therefore, be frustrated.

Having stressed the importance of industry's own resources as a source of finance, it is a disappointing reflection that post-war economic conditions and Government policy should have resulted by the end of 1948 in a common theme in the speeches of company chairmen being the shortage of finance and the inability of companies to maintain their capital equipment intact from internal resources. This situation arose from the operation of three factors—continually rising prices, the ever increasing taxes imposed on profits by post-war Governments and the use by the taxation authorities of historical cost as the basis for computing depreciation allowances which in conjunction with higher prices and higher taxes added a further strain on industry's finances. The strain imposed by these factors became noticeably serious towards the end of 1948 due to the exhaustion of industry's accumulated funds.

The year 1947 is a convenient point from which to begin discussing the increasing burden of taxation. In this year, the National Defence Contribution, which was first introduced before the war, was replaced by a profits tax of 10 per cent. on undistributed profits and 25 per cent. on distributed profits. The tax on undistributed profits remained unchanged but the tax on distributed profits was increased to 30 per cent. in 1949 while 1951 saw the rate on distributed profits further increased to 50 per cent. During this period, profits tax had been deductible before calculating the income tax liability so that there was some offset, but in 1952, the method of taxation was changed so that profits tax was no longer deductible before calculating the income tax. This change of method enabled the rates of profits tax in 1952 to be shown only as 2½ per cent. on undistributed and 22½ per cent. on distributed profits but there was no easing of the burden for with the introduction of an excess profits levy of up to 30 per cent. net it was estimated that industry would have to find a further £100 million for the Inland Revenue authorities. With the introduction of this three tier system of taxation of industry—income tax, profits tax and excess profits levy—the burden of taxation naturally varied between one company and another according to the liability under the excess profits levy, but in considering industry as a whole it is a fair estimate that these taxes took 13*s*. out of every pound of profits earned. The following table—published by Professor Paish—indicates the continually rising burden of taxation which has been inflicted upon industry. The totals for 1947 to 1951 are not, of course, the additions across as in these years profits tax was deductible before calculating income tax liability.

TAX PAYABLE BY COMPANIES

Year	Income Tax	Tax on Undistributed Profits	Tax on Distributed Profits	E.P.L.	TOTAL No Profits Distributed	TOTAL All Profits Distributed
1947 .	9 –	2 –	5 –	—	10 1	11 9
1949 .	9 –	2 –	6 –	—	10 1	12 3½
1951 .	9 6	2 –	10 –	—	10 6½	14 9
1952 .	9 6	6*d. net*	4 6 *net*	Up to 3 –	10 – to 13 – *	14 – to 17 – *

* Depending upon the liability for Excess Profits Levy.

In the 1953 Budget, no changes were made in the level of profits tax and industry was given cause for a feeling of relief by being informed that the excess profits levy would be abolished at the end of the year. This has now been done while the 1954 Budget recognised the need to encourage investment by introducing the special investment allowances.

On the credit side of this taxation problem, it must be noted that a year, and sometimes longer, elapses between the earning of profits and the actual payment of the taxes levied on those profits. Therefore, funds put aside in various tax reserves are in fact available for use within industry. One authority estimated that at any one time there was £2,000 million in these various reserves and though it is no doubt going too far to say that these funds can be permanently invested within industry, it is probably a common practice for companies to utilise these funds for financing their floating capital—particularly during periods of financial strain. The risk is, of course, that a sudden drop in profits could involve a company in some embarrassment in finding the means to pay out of a low current level of profits the taxes levied on high profits in the previous year.

To this burden of increasing taxation has been added the burden of continually rising prices in the post-war years. The following indices (taken from the *Annual Digest of Statistics*) show that apart from some slackening between 1948 and 1949, the steep increases occurred after 1947 and therefore coincide with the increasing burden of taxation and the exhaustion of industry's accumulated funds.

INDEX OF WHOLESALE PRICES
1938 = 100

Year	1945	1946	1947	1948	1949	1950	1951	1952
Index	166·7	172·7	189·1	216·2	226·8	258·7	315·0	323·3
Increase over Previous Year		6·0	16·4	27·1	10·6	31·9	46·3	8·3

Apart from the strain on industry's resources imposed by the need to finance the increasing monetary value of stocks, an additional strain was imposed by the fact that the increase in the value of stocks was classed as profit and taxed as such by the Inland Revenue authorities even though the increased value simply reflected higher prices and that this so called profit was necessary to replace those stocks at the higher level of prices. An example of this arbitrary incidence of taxation is provided by the Imperial Tobacco Company. In its accounts just after the devaluation of sterling the cost of tobacco cleared from bond for manufacture was converted from dollars at the post-devaluation

rate of exchange. However, as a considerable part of these stocks had been bought before devaluation a rise was shown in their value and though this purely fortuitous increase cannot be considered as profit in any real sense of the word it was nevertheless subject to tax. The Company had, therefore, not only to set aside additional funds to replace its stock at the higher price brought about by devaluation, but had also to set aside funds to meet this tax liability.

In addition to the strain on industry's finances from the rising cost of stocks, there was also that which stems from the definition of business profits used by the Inland Revenue authorities which, though allowing a deduction from gross earnings for the maintenance of existing assets, bases this allowance on original cost only. The difference between this and the actual sum required to replace assets at higher prices must be set aside from the 7*s.* in the pound left to industry after taxation. It is not surprising, therefore, that industry complained that after taxation which was taking 13*s.* in the pound, it had not the necessary funds both to cover the difference between the depreciation allowance and the actual replacement price of its fixed assets and to finance an ever increasing money value of stocks as well as endeavouring to expand production. It is probable that instances did occur of actual capital consumption in that the total funds being set aside were insufficient to replace existing assets. Sir Geoffrey Heyworth—chairman of Unilevers—estimated in 1948 that the original cost of the Company's assets were £82 million and only this sum was being allowed by the Inland Revenue authorities even though approximately £148 million would be required to replace those assets. The extra £66 million had to be found out of profits taxed to the extent of 13*s.* in the pound.

It is, of course, no answer to this problem to say that more capital could be raised on the new issue market as has been suggested from time to time. To suggest that industry could make good the erosion of its physical assets by incurring new financial obligations merely recognises the fact that a consumption of capital has taken place and does not provide a cure for this capital consumption.

The difficulties of industry in this respect were alleviated to a certain extent by a system of initial allowances which became important as a source of finance for industry. The provision of initial allowances simply meant that a large part of the cost of capital equipment could be written off in the first year of its life thereby making extra funds available to industry through the higher depreciation allowance for that year. The initial allowances were fixed at 20 per cent. for plant and machinery and 10 per cent. for buildings in 1945. At that time, of course, these were of little immediate significance as industry was well supplied with funds and the factor limiting investment was the scarcity of physical resources. In 1949, with the growing evidence of financial strain within industry, the initial allowance was raised to 40 per cent. for plant and equipment with the allowance for buildings remaining at 10 per cent. In 1951 it was announced that initial allowances would end as from April 6, 1952, but they were reintroduced in the 1953 Budget at 20 per cent. for plant and equipment, 10 per cent. for buildings and, exceptionally, 40 per cent. for capital expenditure on new mining works. There is no doubt that during the six years from 1946 to 1952 these allowances were a valuable source of finance for industry. In their last year of operation they were estimated to have made funds available to industry amounting to £170 million. Taking the six years as a whole, by assuming an annual rate of investment of £750 million, and an average rate of income and profits tax of 11*s.* in the pound it has been estimated that during these six

years approximately £600 million was made available to industry and this estimate is probably unduly conservative.

It is important to see these initial allowances in true perspective in assessing their value as a source of finance for industry in the post-war years. The funds made available to industry in this way were certainly not in the nature of a gift from the Inland Revenue authorities. Correctly regarded they are interest-free loans. As the total amount allowed for the depreciation of assets over their lifetime was still their original cost, the fact that 40 per cent. was written off in the first year simply meant that less was written off in subsequent years so that the tax saved in the first year would be exactly set off by the increased tax liability in the years following. Thus by being permitted to utilise in the first year part of the depreciation allowances which would otherwise have accrued only in subsequent years, industry was in effect, given an interest-free loan which was paid back over the lifetime of the assets through the automatic reduction of the depreciation allowances in the following years. One must not, however, minimise their value. An interest-free loan of £600 million over six years is of value in any circumstances. Also this method ensured that the relief did more or less coincide with the actual expenditure, and that it was used for the purpose intended namely, the financing of capital replacements. As long as these initial allowances continued in existence and industry continued to invest steadily over time these allowances became in the nature of a revolving loan and provided an important infusion of capital into industry. The shortcomings of this device arose firstly from the fact that it did not apply to stocks and therefore did nothing to alleviate the financial strain due to the rising cost of stock replacements. Furthermore, its abolition as from April, 1952 left industry faced with the task of repaying this interest-free loan over the remaining life of its assets. Even though this period might be as much as twenty years it was, nevertheless, an additional strain on industry's resources. Their reintroduction in 1953 was certainly a welcome relief to industry though a permanent solution to the problem of determining adequate depreciation allowances in the light of increased replacement costs is still required.

Some easing of the strain on industry's finances occurred in the latter part of 1952 and in the early part of 1953 following the appearance of a mild disinflationary situation in the economy. Though the discrepancy between the original and replacement cost of fixed assets has remained, at least, the position is no longer deteriorating. Furthermore, the strain of financing stocks at ever increasing prices has been eliminated with its corollary that industry no longer incurs tax liabilities on higher stock values arising simply from increasing prices. The mild dose of disinflation though necessitating some painful readjustments in many sectors of the economy did result in an easing of bottlenecks and therefore reduced the volume of work in progress to be financed. The Unilever accounts published in the early part of 1953 provide a clear example of the easing of industry's financial position. For the year 1952–1953, Unilever's profits declined to £39 million compared with £54 million for the previous year, but there was a net improvement in the liquid position of £47 million made up of a fall in bank loans and overdrafts of £25 million over the year (from £55 million to £30 million) and an increase in cash and investments in securities of £22 million (from £28 million to £50 million).

With the abolition of the excess profits levy as from the end of 1953, the introduction of investment allowances in the 1954 Budget and the comparative stability of prices, it

is now reasonable to hope that industry will be able to undertake the investment in productive equipment which is so necessary if we are to experience an ever-rising standard of living and to compete successfully in international trade.

Bank Advances

Evidence of the strained financial position of industry in the post-war years is provided by the ever-increasing resort to that important source of finance—bank loans and advances. The table given below shows clearly the rising—and sometimes steeply rising—trend in bank advances until February, 1952 followed by a steep decline. After rising in the early months of 1953, bank advances resumed their downward trend but as 1953 drew to a close there was some evidence of a reversal of this trend which is now confirmed by the quarterly figures of bank advances published in February and May of this year.

BANK ADVANCES FEBRUARY 1946 - MAY 1954
QUARTERLY FIGURES PUBLISHED BY THE BRITISH BANKERS ASSOCIATION
(in £ million)

Advances Outstanding	February	May	August	November
1946 A	848·3	865·6	909·4	961·4
B	7·3	8·0	8·5	9·7
1947 A	1,027·0	1,094·1	1,174·4	1,219·0
B	13·5	13·7	11·8	11·6
1948 A	1,307·0	1,351·0	1,380·9	1,379·5
B	13·9	26·4	33·3	18·5
1949 A	1,461·2	1,437·8	1,497·1	1,532·5
B	21·4	16·0	20·9	42·4
1950 A	1,645·9	1,715·1	1,691·2	1,683·2
B	79·1	90·4	47·6	42·0
1951 A	1,806·8	1,894·9	1,964·4	2,016·2
B	55·9	78·1	70·8	94·3
1952 A	2,055·8	2,003·8	1,847·6	1,815·4
B	135·3	104·9	48·4	96·9
1953 A	1,868·8	1,865·1	1,788·5	1,740·7
B	140·5	99·2	65·0	41·7
1954 A	1,842·6	1,890·4	—	—
B	86·9	118·3	—	—

A—Total Advances. B—Advances to Public Utilities only.

The figures used here are those published quarterly by the British Bankers Association as not only are these more comprehensive than the monthly figures published by the London Clearing Banks but they exclude advances made outside Great Britain with which this paper is not concerned. In addition, the monthly figures are slightly distorted by the inclusion of inter-bank items in transit in the figure of advances. Only Lloyds Bank does not adopt this particular accounting technique and from their accounts the extent of this distortion can be judged—particularly at times of seasonal increases in this " transit " item. Thus, the statement of the London Clearing Banks for December, 1950 showed an increase in advances of £36 million. However, the statement

for Lloyds Bank alone showed a fractional decline in advances but a large seasonal increase of £5·3 million in the " transit " item. If the other six London Clearing Banks shared this experience—which is a reasonable assumption—then the apparent rise in advances would be accounted for simply by the increase in these items in transit.

It must be remembered that these figures for bank advances are in fact the volume of advances outstanding on a particular day and, therefore, reflect the net effect of new borrowing and repayments during a particular period. This is particularly important in view of the relationship between new capital issues and bank advances. As a normal procedure for companies is to finance projects by bank loans in the first instance and to repay these subsequently from the proceeds of a new issue, a fall in bank advances due to these repayments would be expected to follow a series of new issues. It is for this reason that the figures for advances to public utilities only (for practical purposes, the electricity and gas authorities) have been shown separately in the table. Their borrowing from the banking system increases very rapidly and then declines equally rapidly as the bank loans are repaid from the proceeds of large new issues on the capital market. Thus, between November, 1952 and February, 1953 advances to public utilities increased by £43·6 million whereas in the following three months, their bank advances outstanding dropped by £41·3 million. Though such fluctuations do not greatly affect the general trend, they do assume importance when considering the movements in the level of advances from one period to the next. For example, during the six months from May to November, 1950 bank advances to industry were continuing their upward trend, but this increase was more than offset by the repayment of bank advances by the public utilities so that total advances show a fall over these six months. A similar situation occurred in the period February to May, 1953. It is further desirable to consider the trend of bank advances exclusive of the public utilities as they are a special case in that their borrowing is guaranteed by the Government and the rate of development in these industries is more a matter of decision by the Government than one based on normal commercial criteria.

In considering these figures, it should be borne in mind that they reflect the net effect of conflicting factors—some inducing a greater recourse to bank advances and others reducing the need for advances. Thus, one can reasonably surmise that advances would have shown an even steeper rise after 1949 had industry not been able to obtain cheap finance through the use of commercial bills and had not been receiving funds through the operation of the system of initial allowances. Before considering the general trends, it should be noted that these figures do reflect the operation of certain seasonal demands. The two most noteworthy are that in the first three months of each year there is an increased demand for advances due to the necessity of industry meeting its tax liabilities and towards the end of the year tobacco companies increase their demands to finance the imports of the new tobacco crop.

The steadily rising trend in bank advances in the early post-war years was clearly due to the reconversion needs of industry and commerce. The first quarterly figures were only published in February, 1946, but the London Clearing Bank figures show increases up to this time of approximately £75 million over the steady wartime level of advances of £750 million. In the early post-war period, companies and firms which had closed down or contracted their scale of operations during the war were requiring bank

accommodation to start business again or to expand. Others required advances to finance the retooling period and stocks taken over from the Government. These demands, though stronger than was generally anticipated at the time, were less than they might otherwise have been in view of the large surplus funds within industry itself and the availability of a cheap source of finance by the use of commercial bills.

Between 1948 and the early part of 1952, the main factor contributing to the rising trend of bank advances was the rapidly rising level of price.. which resulted from inflationary pressure within the country, the devaluation of sterling in 1949, and the outbreak of the Korean war in 1950 with the subsequent boom in commodity prices. As was discussed in connection with the supply of internal finance, industry had not only exhausted its accumulated funds but was faced with the difficulty of financing stocks and replacements at ever increasing prices and a rising burden of taxation aggravated by woefully inadequate depreciation allowances. In view of this strain on industry's own resources, an increasing recourse to bank finance was inevitable. The steep rise in advances of £182·6 million in the six months from November, 1949 (or £134·6 million if advances to public utilities are excluded), clearly reflected the sharp price increases which followed the devaluation of the pound. An examination of the classified figures shows that advances to the food, drink and tobacco group of industries, the wool, leather and rubber industries and retailers accounted for over one half of the increase of £60 million between February and May, 1950. These groups were those most affected by the post-devaluation rise of prices.

The temporary levelling off of advances from May to November, 1950 was due partly to repayments out of the proceeds of a burst of new issue activity which had taken place earlier in the year including a placing of £20 million by the Imperial Chemical Industries Ltd. It was also due to a growing shortage of raw materials. Normally this would be expected to increase the demand for bank advances as the resulting bottlenecks tend to increase the volume of work in progress which must be financed. In this particular instance, however, stocks were run down to meet the shortage of supplies and for a short period, the reduction in funds required to finance stocks was sufficient to offset the increased finance required as a result of bottlenecks and rising prices. The closing weeks of 1950 saw a resumption of the steeply rising trend with an increase in advances of over £100 million being recorded between November, 1950 and February, 1951. The subsequent rise until the early part of 1952 reflected the rising prices associated with the disturbed economic conditions of this period and the commodity price boom following the outbreak of the Korean War.

By the beginning of 1952, industry's recourse to the banks as a source of finance had increased by more than two and a half times since the end of the war, which partly reflected the legitimate needs of conversion to peace time production and expanding output but was mostly due to the inadequacy of their own resources to cope with post-war conditions. The decline in advances first noticed in the figures for May, 1952 reflected primarily the effect of the increase in the Bank rate to 4 per cent. in March, 1952. It caused a great deal of investment to be postponed which might otherwise have been undertaken and, no doubt, investment in the essential industries of the country was reduced somewhat, but the dire economic circumstances of the time called for drastic action to remove inflation which was fast driving this country to bankruptcy. However, from the industrial classification of bank advances it seems, on balance, that the flow of

funds to the basic industries was not unduly restricted as the largest reductions in bank advances were to the less essential sectors of the economy.

The increase in the Bank rate not only reduced the actual demand for funds but reduced the need for bank advances by helping to remove inflationary pressure and stabilising the price level. A contributory factor to the declining trend was the increasing number of new issues during 1952 with the resultant increase in the volume of repayments of bank indebtedness.

In the early months of 1953 the downward trend in bank advances was reversed which was, no doubt, partly due to the increase in funds required to finance the rising level of industrial output after the minor recession of 1952, and partly due to the seasonal demand for bank advances to meet the claims of the Inland Revenue authorities. The downward trend was resumed in the middle of 1953 though some increases were generally expected to follow the expansionist budget of 1953. Evidence of this expected growth in bank advances appeared as 1953 drew to a close and with the publication of the latest quarterly figures in May of this year, bank advances (excluding those to public utilities) are seen to have risen by £73·1 million since November, 1953.

New Issue Market

The new issue market provides a further source of finance which can be tapped by industry. The new issue market is the term describing the large number of individuals and organisations which make possible the issue and sale of new securities. The funds obtained through the new issue market are primarily intended for permanent investment and as such provide an alternative source to the ploughing back of profits by industry itself. Both sources have their value in a smoothly working economy. The ploughing back of profits helps existing industry to expand its production and reduce costs of production while funds become available through the new issue market to supplement industry's own resources and for individuals or groups of individuals wishing to obtain permanent finance for new enterprises. This ability to finance new enterprises helps to counteract monopolistic tendencies which might arise from an unduly large part of the country's investment being financed from within industry itself. The supply of funds to the new issue market to be made available to industry have, however, been on a much smaller scale than is generally held to be desirable. The reduction in the volume of savings within the country—and especially that available for risk-bearing investment in industry—is one of the serious problems of the post-war era. This development was inevitable with the more equable distribution of income and a generally high level of taxation which left very few incomes of a size which permit large savings. Therefore, a large number of small savers, who invariably save through institutions such as insurance companies, now supply the personal savings of the community. Though some of these savings ultimately reach industry this is a poor substitute for direct investment through the new issue market. The solution to this problem of the supply of savings will not be easy and the right approach seems to be to take steps to encourage the small saver to invest in securities rather than to attempt to recreate the large saver. The relaxing of dividend restraint should induce an increased flow of funds into securities while the opening of the public gallery at the Stock Exchange may have some influence in this direction by making investment in securities less of a puzzling and mysterious operation as it tends to be regarded by the layman. Other more unorthodox suggestions have been

made for attracting the small saver such as permitting shares to be bought under a kind of deferred payments scheme.

This difficulty on the supply side has had its effect upon the willingness of industry to approach the new issue market for its finance. Companies wishing to raise large sums have from time to time expressed the view that the shortage of savings would make it difficult to raise large sums by a normal issue. It is partly for this reason that the private placings of unsecured notes with institutional investors was adopted as a method of raising capital by companies such as The Imperial Tobacco Company, Imperial Chemical Industries and Unilevers.

The extent to which industry used the new issue market as a source of finance has also been restricted on the demand side. Control over the raising of capital in excess of £50,000 in a period of twelve months has been exercised by the Capital Issues Committee throughout the post-war years. This Committee had its origin in the pre-war years, and was in existence throughout the war years. It was continued into the post-war years as the Government's organisation to direct the raising of new capital in accordance with the general economic policy of the Government. Memoranda and directives have been issued to the Committee from time to time laying down the criteria for considering applications to raise new capital and in the early post-war years it not only ruled on the desirability of a particular issue but also on the method and price of the issue. Consequently, several instances occurred of an issue being approved in principle but not being proceeded with because the company concerned and the Committee could not agree on the issue price.

It is, therefore, within this framework of restriction and the lack of savings within the economy that the extent to which industry has resorted to the new issue market as a source of finance must be considered. It is not surprising to find, therefore, that the volume of finance obtained has generally been below the level which healthy business expansion would seem to require. In addition, recurrent economic crises, the vendetta against dividends and profits on the part of certain groups in the country and heavy taxes on distributed profits have all added to the difficulties of attracting finance through the medium of new issues.

Turning to an examination of the new issues which have actually taken place in the post-war years it should be noted that we are concerned only with those resulting in an addition to industry's funds. Other new issue activity which merely results in a transference or broadening of the ownership of existing capital must be excluded. The following figures, therefore, are based on those published by the Midland Bank Ltd. which exclude all borrowings by the British Government, shares issued to vendors, allotments arising from the capitalisation of reserve funds and undivided profits, sales of already issued securities which do not add to the capital resources of the Company whose securities have been offered, issues in replacement of securities previously held in the United Kingdom and private placings for which no market quotations are obtained. The published figures have been further adjusted to exclude, firstly, overseas borrowing so that the figures represent the supply of finance to industry in Great Britain and, secondly, the issues made by public bodies—principally the British Electricity Authority, the Gas Council and British Transport Commission—as these are more in the nature of Government issues. These issues have also in the past been for significant sums which

introduces a distortion into the figures. It must be noted too that the figures must be regarded with a certain amount of caution because in view of the relatively small totals involved, a large issue by one company will introduce a considerable distortion in the trend.

NEW ISSUES 1945–1952
(in £ million)

	1945	1946	1947	1948	1949	1950	1951	1952	1953
TOTALS	20·5	130·1	151·1	251·4	138·4	312·9	252·0	370·5	396·0
Deduct Overseas Borrowing . .	3·5	19·1	33·5	38·1	42·2	50·7	48·7	47·4	58·7
Deduct Public Bodies .	—	—	5·0	99·5	—	154·4	75·5	205·8	245·5
New issues for home industry and Commerce	17·0	111·0	112·6	113·8	96·2	107·8	127·8	117·3	91·8

In 1945, the practically negligible figure is to be expected as the war extended over eight months of the year and investment programmes would require several months before being reflected in the figures.

1946 saw a considerable expansion in new issues as the conversion of industry to peacetime production got under way. However, in this year, as in subsequent years, the volume of new issues did not indicate the volume of investment in view of the financing of investment largely out of industry's own funds.

The post-war expansion in new issues continued well into 1947 but a rapid falling off occurred after July. This was accounted for by the depressed conditions in the capital market resulting from the uncertain economic outlook and the monetary disturbances associated with the short-lived experiment in convertibility. New issues were postponed, therefore, until the measures to deal with the situation by the Government were known. In addition, it is, of course, extremely difficult to float a new issue successfully during a period of falling share prices. At this time, therefore, companies postponed new issues preferring to wait until conditions in the capital market were more propitious. Of the new issues in 1947, £15 million was issued by the Steel Company of Wales as part of its £50 million development programme.

As a result of the monetary disturbances in the latter half of 1947, the Government addressed a Special Memorandum to the Capital Issues Committee which was clearly designed not only to enforce particular priorities but also to ensure that the volume of capital being obtained through the new issue market did not, in 1948, rise above the restricted level of 1947. The announcement made in Parliament by the Chancellor of the Exchequer on December 2, 1947 said, *inter alia*, " The Committee have for some time, with my predecessor's approval, been adopting a more restrictive attitude towards applications, and the purpose of the new memorandum is to give clear and formal expression to the revision of emphasis required by our economic position." In 1948, however, industry's restricted access to the new issue market as a source of finance is not immediately obvious from the total figure as it includes two large issues—one for £31 million by Shell-Royal Dutch in January and one for £20½ million by Imperial Chemical Industries in July Stock market conditions became less favourable for new

issues towards the end of 1948 and in the earlier part of 1949 because of some depression of security and share values due to the increasing sales of industrial holdings of securities in which industry's liquid funds were invested. This was a reflection of the growing strain on industry's financial resources which first attracted wide spread attention at this time.

1949 was a year of much reduced activity in the new issue market. The reduced use made of this source of finance by industry was due in part to the continuance of restrictions imposed by the Capital Issues Committee which were possibly increased following a new memorandum addressed to it in April, 1949 emphasising the need for strict control. In addition, there was a general hesitancy by industry in considering long term investment plans in view of the unsettled economic conditions culminating in the devaluation of sterling in the September. Added to this, depressed share values stemming from these economic difficulties made the successful floating of new issues unlikely without offering inordinately high yields. Even the number of offers to shareholders which until this time had been becoming increasingly popular as an easy and inexpensive method of raising capital declined. The nadir in new issues was reached with the devaluation of sterling with a mere £15 million of new money being raised during the three months of August, September and October. There was some recovery in November and December as confidence increased in the efficacy of devaluation but in absolute terms the volume of new issues remained at a low level.

The picture provided by the figures for 1950 is one of increased activity over the low level of 1949. The increase noted at the end of 1949 continued into the early months of 1950 due, to some extent, to the fact that many new issues postponed during the previous year could be postponed no longer. In addition, it appears from company reports at the time that capital equipment which was ordered in previous years was now coming forward at an increasing rate necessitating the raising of permanent finance. The reduced activity in the middle of the year and the increase in the autumn were partly a reflection of the normal seasonal pattern of new issue activity, but there was naturally some postponement of new issues in view of the impending general election. The increase in the last few months of 1950 was supported by an influx of funds from overseas. These funds caused some strengthening of the gilt-edged market which was reflected into the new issue market making conditions favourable for new issues.

Another unfavourable year for raising finance through the new issue market was experienced in 1951. As in 1949, this was due to unfavourable market conditions resulting from the deterioration in the economic health of the country. By the time a change of Government occurred in October, 1951 the gold and dollar reserves were being depleted at a rate such that within a matter of months they would have been completely exhausted. In addition to the depressed share values, there was no relaxation of the restrictive attitude of the Capital Issues Committee. In fact it is probable that their attitude became more restrictive following receipt of a new Memorandum in April, 1951 emphasising again the need for a strict and critical examination of all proposals. It is difficult to judge the extent to which industry was prevented from raising funds on the new issue market, for those Companies applying to the Committee represent only a proportion of those wishing to raise new capital. Many must have decided not even to apply for permission knowing full well that their application had very little chance of

being approved. Despite the fact that this was generally an unfavourable year for new issues, the highest annual total for any of the post-war years was produced by a sudden spurt of new issue activity in November and December, accounting for about a third of the total for the year of £127·8 million. This spurt was no doubt partly a reflection of industry's relief at the return of a Conservative Government but it must also have been the natural consequence of the postponement of new issues in the pre-election period. However, it turned out to be extremely difficult to decide acceptable terms of issue in the uncertain market conditions existing in the immediate post-election period for in the closing weeks of 1951, of five large issues of fixed interest stocks, proportions ranging from four-fifths to nine-tenths were reported to have been left in the hands of the underwriters.

In view of these shocks it is no surprise that 1952 opened with a reduced level of activity in the new issue market. There was some recovery from this low level but the year as a whole was not one of great activity. There was a noticeable fall in the number of new issues though there was no significant fall in the volume of funds raised as the reduced number of issues included some for large sums such as the £20½ million raised by Imperial Chemical Industries and the £10 million raised by Distillers. Two factors were operating to reduce the number of companies approaching the new issue market for finance. Firstly, the strain on industry's own resources which had been a feature of previous years eased during 1952 so that an increasing proportion of the funds required could be found from industry's own resources instead of through the new issue market. Secondly, the minor recession experienced in 1952 necessitated a downward revision of the investment programmes in many sectors of industry.

The figures for new issues in 1953 bring out with some clarity that the main single source of finance for industry's capital construction is company savings with new issues playing only a secondary role. Though the total of new issues during the year reached a new peak for the post-war period, after allowing for overseas issues and those to public authorities it is seen that capital issues for industry alone fell from £117·3 million in 1952 to £91·8 million in 1953.

"NEW MONEY" ISSUES BY TYPE

Percentage of total issues

Year	Share Capital		Total Share Capital	Debt Issues
	Preference	Ordinary		
1946 . .	23·7%	60·6%	84·3%	15·7%
1950 . .	8·5%	35·9%	44·4%	55·6%
1951 . .	15·1%	47·1%	62·2%	37·8%
1952 . .	3·1%	68·3%	71·4%	28·6%
1953 . .	7 5%	42·1%	49·6%	50·4%

Source :—*Midland Bank Review.*

A further depressing feature has been the continuing preference for debt issues rather than capital issues proper. There has been this growing preference for debt issues in the post-war years and though some reversal of this trend was apparent in 1951 and 1952, it is clear from the table below that in this last year the preference for debt

issues instead of capital issues has been as strong as ever. Even bearing in mind that these percentages are based on small totals and therefore subject to distortion by large issues, the trend is unmistakeable.

This trend has been due partly to the difficulty anticipated by some companies in raising large sums by the issue of equity capital in view of the shortage of risk capital, while dividend limitation and increased stamp duties on transfers have reduced the attractiveness of equity issues for investors. This and the saving in expenses induced many companies to place debenture issues with financial institutions rather than issue them by direct public offer. Undoubtedly, however, debt issues have been favoured because of the incidence of profits tax. Briefly, the interest payable on loan capital is deductible as an allowance for taxation purposes whereas dividends on share capital are not. In the case of preference dividends, it seems to be a practice for companies to pay these without deductions for profits tax. This must still be paid either out of the ordinary share dividend or out of the reserves normally belonging to the ordinary shareholder It has, however, not been the practice to reduce ordinary dividends and the tax liability has been met from reserves. Thus debt issues have been preferred thereby securing a tax allowance instead of incurring a further drain on reserves. It is clearly undesirable that the form of company capital should be dictated by these arbitrary fiscal considerations even apart from the wider question of the effect on the position and supply of risk capital of these increases in prior charges on company assets.

The slight reversal of this trend towards debt issues in 1951 and 1952 was no doubt simply the first normal reaction to the weakening of dividend limitation which increased the attractiveness of equity investment while the substantial increase in interest rates from March, 1952 acted as a deterrent to financing by way of debt issues. However, it now appears that the tax advantage attaching to debt interest as against dividends on shares is still the most powerful influence determining the method by which companies raise their capital on the new issue market.

Before leaving the question of new issues it is relevant to note the extent to which institutional investors such as insurance companies and investment trusts supply funds to industry. These are important as they are the main source through which small savings—the predominant form of personal saving now—are channelled to industry. These are not, of course, funds which industry can tap on its own initiative but when contemplating a new issue, a company would consider the extent to which the issue would be supported by institutional investors. In 1952, the funds of the British insurance companies amounted to £3,300 million of which 12 per cent. was invested in equities. This compares with 10 per cent. in 1939 and 5 per cent. in the late 1920's. A movement of 2 per cent. in 13 years does not represent a great change in traditional investment policy, but if the savings of the country are to reach industry in the form of risk capital then a continuation of this trend would seem to be desirable. Investment trusts have invested between 50 per cent. and 60 per cent. of their funds in industrial securities but are of less importance than insurance companies as their holdings only represent 3 per cent. of the total risk securities dealt in on the Stock Exchange. Their importance has been further diminished in the post-war years by the ban imposed by the Capital Issues Committee on share issues by investment trusts. It was only in August, 1953, that this ban was removed in very belated recognition by the Chancellor of the Exchequer

of the important part which can be played by investment trusts in mobilising the small savings of the country and directing them to industry. Industry also has access to sources of finance which are outside the groups so far discussed. For example, some increase in the use of hire purchase facilities to finance capital expenditure has been in evidence in the post-war years, though the Government has made every effort to curb this type of finance as it provided a means of overcoming to some extent the Government's restrictions on raising capital. The instructions to the Capital Issues Committee and to the Banks in April, 1951 contained a special mention of the need to restrict this type of finance except in cases in which it was clear that the funds would be used for approved purposes. The announcement in 1951 that the initial allowances would be suspended no doubt provided an inducement to companies to anticipate some of their capital requirements and to finance this anticipatory buying by hire purchase facilities. No great success attended the Government's efforts in view of the difficulty of determining the ultimate use to which funds would be put as distinct from the declared intention at the time of application.

An increase in the placing of unsecured notes was noticeable in the post-war years particularly between 1948 and 1951. Though, in effect, these are new issues, they were only included in the new issue figures in so far as they were later introduced on the Stock Exchange for quotation. Thus, to judge from company announcements from time to time, about £70 million was raised in this way in 1950 of which £25 million was later quoted. These placings have their advantage both for the borrower and lender for the borrower avoids the costs and complications of a public issue while the lender—the financial institutions—acquire a high grade stock on favourable terms. If one believes that the capital market is a vital institution and that it needs a large flow of business to maintain its efficiency, then any increase in the short-circuiting of valuable business by private placings can only be regarded as unwelcome.

Finance Corporation for Industry and Industrial and Commercial Finance Corporation

Finally, two financial institutions must be mentioned which have been an important source of finance for industry in the post-war years. These are the Finance Corporation for Industry and the Industrial and Commercial Finance Corporation which were established in the early months of 1945 and are still in existence. The Finance Corporation for Industry is the larger of the two organisations and owned by a large group of insurance and trust companies and the Bank of England. Its capital is £25 million and the borrowing powers £100 million. The smaller organisation, The Industrial and Commercial Finance Corporation, is financed by the Clearing Banks (apart from a nominal £½ million subscribed by the Bank of England) and was established with a capital of £15 million and borrowing powers of £30 million. The purpose of the F.C.I. was given in 1945 as "the provision of temporary or longer period finance for industrial business with a view to their quick rehabilitation and development in the national interest." The I.C.F.C. was established to supply medium and long term capital for small and medium businesses for amounts ranging approximately from £5,000 to £200,000. It was anticipated that this would solve the problem reputed to exist of raising these amounts of capital which were too large to consider a bank loan, but not large enough to make an approach to the new issue market worth while.

September, 1954

It was anticipated that the F.C.I. would provide a useful source of finance for capital projects involving a heavy outlay of capital over a period of years. This has in fact been the case for a large proportion of its loans have gone to the heavy industries, the most noteworthy being the £35 million supplied to the Steel Company of Wales over a period of five years from 1947. The extent to which the F.C.I. has financed the steel industry can be gauged from the fact that in 1950 the F.C.I. had actually issued loans of £32 million of which £20·8 million had been taken up by the steel industry. Outstanding commitments at that time amounted to £34·2 million of which £32·2 million was on behalf of the steel industry. The extent to which industry has had recourse to these funds can be gauged from the following table. The fact that the steel industry has been able to carry through its huge development programme with the substantial help of these funds, and particularly, the bringing to fruition of the South Wales project, would seem ample justification for the existence of the F.C.I.

FUNDS SUPPLIED BY THE FINANCE CORPORATION FOR INDUSTRY
£000's

At March 31	Advances and Investments	Further Commitments	Total
1946 . .	254	1,081	1,335
1947 . . .	1,862	799	2,661
1948 . . .	4,738	41,276	46,014
1949 . . .	10,969	50,080	61,049
1950 . . .	32,702	34,160	66,863
1951 . . .	54,507	13,945	68,452
1952 . . .	52,836	17,125	69,961
1953 . . .	60,884	11,250	72,134
To Sept. 23, 1953	—	—	82,240

The Industrial and Commercial Finance Corporation has been an equally useful source of finance in its own field. Its activities have not proved conclusively that there has existed an unsatisfied demand for medium and long term finance for small businesses, as generally, between 40 per cent. and 50 per cent. of the finance provided has been in sums of £100,000 and upwards. However, this does not detract from its value as a source of finance as is shown by the table given below. The F.C.I. and I.C.F.C. have helped to provide equity capital by making loans which carried an option to convert them into equity capital at a certain time and on agreed terms in addition to investing in ordinary and preference shares. A table showing the composition of the invested funds of the I.C.F.C. is reproduced below from the Corporation's latest Annual Report.

COMPOSITION OF INVESTED FUNDS OF THE I.C.F.C.
AS AT MARCH 31, 1954

Type of Investment	Amount £000's	Percentage of Total Advances
Secured Loans	10,764	39%
Unsecured Loans	5,791	21%
Red. Preference Shares	5,335	19%
Non-Red. Preference Shares . . .	3,196	11%
Ordinary Shares	2,741	10%
TOTAL . . .	27,827	100%

FUNDS SUPPLIED BY THE INDUSTRIAL AND COMMERCIAL FINANCE CORPORATION

At	Advances and Investments		Further Commitments	Offers to Applicants Awaiting Acceptance and Contract
	Net (1)	Gross (2)		
31–9–46	1,239	—	2,809	1,023
31–9–47	5,576	—	4,785	631
31–9–48	10,496	—	2,876	601
31–3–49	12,398	13,982	2,734	509
31–3–50	15,668	18,616	1,704	290
31–3–51	20,252	24,651	1,735	1,017
31–3–52	23,689	29,987	2,901	617
31–3–53	26,286	34,625	1,217	615
31–3–54	27,827	38,288	1,666	505

(1) Gross advances *less* repayments, realisations and provisions.
(2) Total sums paid out to the dates mentioned.

The table shows that since being established, the I.C.F.C. had by March 31, 1954, supplied industry with funds to the extent of £38,288,000, of which £27,827,000 was still outstanding.

Many other smaller institutions, usually with more specialised functions, have been established to help supply finance to industry. The Safeguard Industrial Investment Ltd. sponsored by the London and Yorkshire Trust to cope with the impact of death duties on the finances of private companies, and the Private Enterprises Investment Co. formed by four merchant banks to help finance small businesses are two which came into being towards the end of 1953.

The question of the supply of finance for industry since the war has been approached in this essay from what might be termed the demand side. We have adopted an institutional approach in considering industry confronted with the need for finance and discussing the various sources from which funds have been obtained, the extent to which each one has been used, and the factors governing the use made of each of these sources. With regard to short term finance, attention has been drawn to the importance of trade credits, the increased use of commercial bills until 1952 and the changes in the level of bank advances, while a full discussion was undertaken of the use of industry's own funds, both for short and long term finance. Some estimate has also been made of the part played by the new issue market and certain special institutions in supplying funds to industry. The general picture which emerges is that, for three post-war years, industry had access to sufficient funds as the factor limiting activity was the shortage of physical capital rather than financial capital. For the next three years—say until the end of 1951—industry experienced difficulties in obtaining sufficient funds, while from the beginning of 1952 some easing of the situation was observed, until now, funds and resources are in reasonable supply and it has become necessary instead to encourage industry to undertake a greater scale of investment by the introduction of investment allowances in the 1954 Budget. For the future, while recognising that claims on a substantial part of the country's resources exist apart from those of industry, one must hope that expanding levels of output and rising standards of living will not be restrained merely on account of an insufficient flow of funds to industry.

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September, 1954

Recent Legal Decisions of Interest to Bankers

By C. B. Drover

CURRENT ACCOUNT OF ENEMY-EFFECT OF OUTBREAK OF WAR

ARAB BANK, LTD. *v.* BARCLAYS BANK (DOMINION, COLONIAL AND OVERSEAS)
(1954 : 2 All E.R. 226 ; 2 W.L.R. 1022 ; 98 Sol. J. 350)

Arab Bank Ltd., which was a company originally incorporated in Palestine, maintained a current account at the Allenby Square branch in Jerusalem of Barclays Bank (Dominion, Colonial and Overseas). Arab Bank's head office was at the Anboussie Building, a short way outside the Old City of Jerusalem, and it had branches throughout Palestine, and elsewhere. At midnight on May 14 15, 1948, when the British mandate over Palestine ended, the balance standing to Arab Bank's credit at the Allenby Square Branch was £P.582,931·146.

Immediately upon the termination of the mandate the State of Israel was constituted by a declaration of independence and a proclamation made thereunder, and without formal declaration, war in fact broke out between the State of Israel and the Arabs in Palestine, supported by certain other States. Arab Bank, being owned and controlled by Arabs, moved its head office into the Old City of Jerusalem, which was in Arab hands, while the Allenby Square Branch passed into Israeli hands. The Allenby Square Branch had in fact been closed and evacuated on the day before the termination of the mandate.

By its Law and Administration Ordinance, No. 1 of 1908, the State of Israel provided that the law which existed in Palestine on May 14, 1948, should remain in force, and as the then-existing law embodied the common law of England in so far as trading or communicating with the enemy was concerned, it became illegal for anyone in Israel to have intercourse with anyone in enemy territory.

By further regulations, known as the Emergency Regulations on the Property of Absentees, the property of absentees was vested in a custodian. The expression " absentee " meant, in general terms, anyone who owned property in Israel and who, on or after November 29, 1947, had gone outside Israel. It was not disputed that Arab Bank was an absentee.

On November 24, 1948, Arab Bank requested Barclays Bank (D.C. & O.) to pay its Allenby Square balance to an account in London, but the latter bank declined on the ground that such a payment was prohibited by the Israeli exchange control regulations.

The writ in the present case was issued on October 9, 1950.

On February 8, 1951, Barclays Bank (D.C. & O.) paid the amount of £P.582,931·146 to the custodian.

In these proceedings Arab Bank claimed payment to it in London of the sterling equivalent of that sum. Its first head of claim was based upon the contention that repayment of the whole of the balance standing to its credit at the Allenby Square branch had been demanded prior to the termination of the British mandate, but Parker J., in the court of first instance, found as a fact that there had been no such demand, and this head of claim fell to the ground.

Arab Bank's alternative contention was based upon the claim that the contract of current account which subsisted between itself and Barclays Bank (D.C. & O.) was frustrated and thereby brought to an end by the state of war which broke out, and that upon the termination of the current account contract, there arose in its place an obligation

by way of simple debt payable without the necessity for previous demand and not necessarily payable at the branch of Barclays Bank (D.C. & O.) where the current account had been previously maintained.

It was HELD unanimously by the House of Lords, affirming the decisions of the Court of Appeal and of Parker J., that a bank balance standing to a customer's credit on current account was a debt due, notwithstanding that it did not actually become payable until demand had been made at the branch where the account was kept, and was accordingly an " accrued right " which was not abrogated by the customer's becoming an enemy, but remained in suspense until the termination of hostilities. Accordingly Barclays Bank (D.C. & O.) had acted correctly in paying the credit balance to the custodian, and could not be required to refund the money to Arab Bank.

This important case determines what, under English law, is the effect of the outbreak of war on a current account kept by a bank in this country for a customer resident in enemy territory. Actually, the bank balance in question was held in Palestine, but English law was applied, not because the dispute came before the English courts, but because English common law was applicable in Palestine at the material time.

The general principle of English common law is that " a state of war between this kingdom and another country abrogates and puts an end to all executory contracts which for their further performance require commercial intercourse between the one contracting party, subject to the King, and the other contracting party, an alien enemy, or anyone voluntarily residing in the enemy country." (Per Lord Dunedin in *Ertel Bieber & Co.* v. *Rio Tinto Co.* ([1918] A.C. 267). On the other hand, where all that remains to be done under a contract is the payment of a liquidated sum of money, this will be treated as a debt and will survive the outbreak of war, though the enemy creditor's right to sue for payment will be suspended until the termination of hostilities. (See *Schering Ltd.* v. *Stockholms Enskilda Bank* [1946] A.C. 219).

Accordingly, the issue in the present case turned upon whether or not the contract of current account between Barclays Bank (D.C. & O.) and Arab Bank was abrogated and brought to an end by the *de facto* commencement of hostilities or whether the balance on current account represented a debt immediately due, though perhaps not immediately payable, which would survive the outbreak of war. Arab Bank conceded that demand had to be made at the branch where a current account was kept before payment could be made, and further conceded on appeal that no such demand had been made, but contended that the contract of current account was automatically brought to an end by the outbreak of war. The result was, it contended, that a debt became immediately payable by Barclays Bank (D.C. & O.) to Arab Bank ; the place of payment not being restricted to the Allenby Square Branch. Accordingly, Arab Bank was entitled, as it contended, to sue Barclays Bank (D.C. & O.) in London for the balance formerly standing to its credit on current account.

This contention failed because the House of Lords came to the conclusion that " the credit balance survived the outbreak of war and was a right to be paid at the Allenby Square branch", and that being so, there could be no doubt that the balance was rightly paid to the custodian.

The fact that upon the outbreak of war Arab Bank had no right of action against Barclays (D.C. & O.) in respect of the sum standing to the credit of the current account did not mean that there was no debt owing to Arab Bank. There was a debt owing,

and it survived the outbreak of war, notwithstanding that demand had to be made for payment in a particular place.

In considering the rights of Arab Bank immediately prior to the outbreak of war, Lord Reid stated as follows (2 All E.R. at p. 236) :—

> " In *Joachimson* v. *Swiss Bank Corpn.* ([1921] 3 K.B. 110), the firm N. Joachimson, had a current account with the defendant bank. On Aug. 1, 1914, the firm was dissolved by the death of one of the partners and on that date a balance of £2,321 was standing to the credit of the firm. Later, one of the partners raised an action in the firm name to recover that sum, but for some reason he gave an undertaking that the only causes of action relied on arose on or before Aug. 1, 1914. His action failed because, although the customer's account was then in credit, the customer had then no cause of action against the bank. The case decides, in my judgment rightly, that a customer must make a demand for payment at the branch where his current account is kept before he has a cause of action against the bank. Generally it is the duty of a debtor to seek out his creditor and tender the amount of his debt, but there is nothing to prevent parties from agreeing, if they wish, that that shall not be the duty of the debtor, and it was held that a contract of current account necessarily implies an agreement that that shall not be the bank's duty: otherwise the whole object of the contract would be frustrated. The balance at the customer's credit is only payable at the branch where the current account is kept, and so the customer must go there or send his instructions there before he can get his money."

Lord Reid considered that the incidents attaching to a current account were quite different from the case where one party to the contract had to perform some service or fulfil some obligation under the contract in order to earn the money, since in such cases further performance of the contract being frustrated, that party could never do what was necessary to earn the money. Nothing was owing to him when the war broke out, so there was no " accrued right " to suspend.

On the other hand a sum standing to the credit of a customer on current account has always been regarded as a debt due by the bank to the customer (see *Rogers* v. *Whiteley* [1892] A.C. 118, *Plunkett* v. *Barclays Bank Ltd.* [1936] 1 All E.R. 653, and *Swiss Bank Corpn.* v. *Boehmische Industrial Bank* [1923] 1 K.B. 673). Furthermore, the existence of a debt does not depend upon there being a present right to sue for it. The concept of money owing now but not payable until a future date is a well-known one.

Accordingly Lord Reid reached the conclusion that the debt on current account was an accrued right which was not abrogated by the outbreak of war, although the contract of current account could no longer be performed.

Lord Tucker struck an interesting note by reserving the question as to what would be the position with regard to the balance on a current account after the account had been closed and was no longer current. He said (*supra* at p. 239) :—

> " Before parting with the case, I would, however, desire to say that I reserve for future consideration the question whether the necessity for demand before action in respect of sums standing to the credit of a customer's current account during the currency of the account, as decided in *Joachimson* v. *Swiss Bank Corporation* (*supra*), applies equally in all circumstances to the balance after the account has been closed and thereby ceased to be current. In the present case, as the outbreak of war was the event which closed the account, I think the situation must be viewed as at the moment before war broke out when the account was still current."

100 Years Ago

From *The Bankers' Magazine* of September, 1854

PROGRESS OF BANKING IN AUSTRALIA

The importance of Australian affairs is so generally recognised, that it is obvious there should be a periodical investigation into the banking condition of those colonies. The extension of their commercial relations with Europe has had a marked influence upon the welfare of society ; and, as the discovery of gold has been the primary cause of this increase of trade, it must be admitted, that if the production of gold were now largely to cease, or if the wealth collected there were to be suddenly withdrawn, there would be a severe convulsion, which would operate most disadvantageously both upon Austialia and this country. It cannot be overlooked, either, that the effect of the discovery of gold has been greatly to improve the condition of all monetary markets—not, as some contend, by cheapening the value of the commodity, which experience has shown to be a most fallacious dogma, but in enlarging the medium of circulation, in improving currency, and in distributing the precious metals more equitably throughout the world. This benefit to other countries is at once apparent, when the total imports of gold are compared with the small proportion remaining in England ; and it must ever be deemed a beautiful arrangement in the economy of this world's affairs, which so wisely divides benefits of such incalculable importance to the material prosperity of nations . . .

With the extensive operations of last year, the exchanges between Australia and England are undergoing great fluctuations. The balance of trade being against the colonies, a pressure upon the banks has been made during the last few months for drafts on England, and if the amount could be ascertained, it would represent an astonishing aggregate. During the early period of the gold discoveries, when the trade was in an inverse ratio of its present state, drafts on England were as low as 8 per cent. discount, and now they have advanced to 5 per cent. premium. These rates are sufficient indication that bank drafts, like all other commodities, must follow the laws of supply and demand, and although the present premium looks a heavy tax upon the commercial community, the banks, on the other hand, are obliged to give par for gold, that is the full mint price, and be at a heavy expense in bringing it to this country for realisation. Indeed, the rupture with Russia has had a very sensible effect upon gold dealing, the war risk having added fully 20*s*. per cent. to the premium of insurance, which has now attained a rate doubly as high as when gold first became an article of import to this country. In relation to the exchanges, it is important to observe that sovereigns are now being sent from Australia, which is a state of things that many did not contemplate ; and even those who knew that the exchanges would at all times settle their destination, few expected that coin so recently sent from England would again be in transit.

The conflict in which Europe is engaged will not, we trust, have any injurious effect upon Australia beyond those necessarily increased charges already imposed, which commerce at large sustains. There have been fears entertained in Australia of attack from the Russian fleet known to be in the Indian Seas, but these fears, it is now believed, will prove groundless, and if such should happily be the case, Australian interests are secure, provided care, vigilance and forethought be exercised by those engaged in the trade and banking of those colonies.

EDUCATIONAL SECTION

Monthly Problem

THIS month we publish an unusual problem which has been submitted by a Barclays Bank reader in Manchester to whom our prize of one guinea has been sent. A further prize of one guinea will be awarded to the reader who submits the most satisfactory solution. All replies should reach The Editor, *The Bankers' Magazine*, 85 & 86, London Wall, E.C.2, not later than September 15, 1954.

" X, Y, and Z are in a similar line of business and decide to unite to form a private limited company. Before the Certificate of Incorporation is issued, X, Y and Z enter into contracts with outside parties, and use the new company's note-paper in the course of correspondence.

X, Y and Z now call in at the bank with several cheques, all payable to the new company, XYZ Limited, whose Certificate of Incorporation has still not been issued.

What attitude should the bank adopt ? Is it to collect the cheques and, if so, (i) how are they to be endorsed, (ii) what formalities should be observed when paying over to the company, duly incorporated, the proceeds of these cheques, if credited to a suspense account ? "

AUGUST PROBLEM

A LARGE number of readers attempted to solve this practical problem but, unfortunately, many were confused in their interpretation of the North & South Insurance Corporation case (see below), and only a few presented a clear picture of both the legal and practical risks. The best answer came from a Barclays Bank reader in Manchester, to whom the usual prize of one guinea has been sent.

The problem read as follows :—

" Included in a credit received by Southtown Bank for the account of their customer Z is an item for £10 drawn by P on Northtown Bank and made payable to ' cash or order '. This document bears no endorsement and the cashier of Southtown Bank declines to accept it for collection, contending that it must first be endorsed by the drawer. Is the cashier justified in adopting this attitude ? "

From the legal standpoint, the item for £10 which P has drawn on Northtown Bank is not a cheque because it is not drawn payable to a specified person or to bearer. (*North & South Insurance Corporation Ltd.* v. *National Provincial Bank Ltd.* [1936] 1 K.B. 328). It was then decided that " cash " could not be a payee and in that respect a mandate to pay to " cash to order " cannot in law be validly endorsed. On the facts before him, Branson, J., disregarded the printed words " or order " and accepted the document as a direction to pay cash, by implication, to the bearer of the document. But he went on to say that, as payment had actually been made to the person whom the drawer intended to receive payment, it would have been a blot on our legal system if the Court had decided against the bank. In other circumstances, the decision might

have been different and this case must not be looked upon as a legal decision that any instrument made payable to " cash or order " is automatically an order to pay bearer. This view was upheld by Lloyd-Jacob, J. in *Cole* v. *Milsome* [1951] 1 All. E.R. 311, who stated, after reference to the North & South Insurance Corporation case, that it " did not decide that, on the proper construction of Section 3 (1) (of the Bills of Exchange Act, 1882) a payment expressed to be to ' cash or order ' was a payment to bearer ". Thus the cashier of Southtown Bank is correct in declining to regard the instrument as payable to bearer.

Whether the cashier is justified in declining to accept the order for collection without it is first endorsed by the drawer depends, however, on the surrounding facts. The risk is that the customer, Z, has no title to the order. As far as can be judged from the case quoted above, if payment is not made to the party whom the drawer intended should receive payment, the drawer may be able to recover from the banker who has paid or collected the instrument. If Z has stolen the order or obtained it from a thief, Southtown Bank would presumably be liable for conversion to the true owner. Even if the order is crossed, it is outside the Bills of Exchange Act and Section 82 will afford no protection.

The following rules were set out on page 202 of the *Journal of the Institute of Bankers*, Vol. 72 (October, 1951) as a guide in dealing with an instrument drawn payable to " cash or order ".

(*a*) if uncrossed it may safely be paid over the counter only to the drawer or his known agent and whether endorsed or not (the endorsement of the drawer does not make the instrument transferable) ;

(*b*) if crossed and bearing no sign of having been transferred, it may be paid through the clearing or over the counter to another bank without question, whether endorsed by the drawer or not ;

(*c*) it should not be collected, if uncrossed, except for a responsible customer, who, anyhow, should be asked to cross it.

Strictly, therefore, the cashier may be justified in declining to accept the item without the endorsement of the drawer as evidence of receipt, but the amount involved is only £10 and, if Z is an established customer of reasonable financial standing, the practical risk is negligible.

Banker and Customer

The Collection of Cheques

Negligence (*continued*)

The general test of negligence within the meaning of Section 82 of the Bills of Exchange Act, 1882, was explored in these pages in our May issue and this month it is convenient to resume the survey of practical examples illustrating the minimum standard of care expected of the collecting banker in order to rely upon the statutory defence against the conversion of a cheque.

Cheques Payable to a Limited Company

In the daily conduct of the accounts of limited company customers the banker must always distinguish between the legal entity of the company and the entities of its directors and members. They cannot and must not be confused. A limited company is in effect an artificial person created by statute which is able to incur obligations and enforce rights very much as if it were a human being. The corporate entity of the company is quite distinct from the individual entities of its members or owners. This fundamental principle demands special care when dealing with small private companies, particularly those with only two shareholders, usually man and wife, who are also the sole directors. The dangers of that unfortunate term "one man company" cannot be exaggerated in this connection. The prudent banker has always to remember that there must be two or more members of every limited company and transactions on the account of the company cannot be confused with the private transactions of the shareholders. For example, to all intents and purposes a valued, wealthy private customer, Davy Jones, may own, control and direct the limited company Davy Jones Ltd. The fact that he owns 99 per cent. of the share capital and his wife holds the balance and obediently follows his instructions in matters concerning the company, does not enable Mr. Davy Jones to confuse with his private monies the assets of the limited company. There are still many individuals who do not realise that the company which they control and largely own is a separate legal entity with assets and liabilities which have to be maintained quite separately from their private debts and resources. The local grocer, Mr. Salt, sells his business to a limited company with two shareholders, Mrs. Salt and himself, but continues to trade in the same shop in precisely the same way as before. It is difficult for him to realise that he has created an artificial person which now owns the business. Similar problems arise when a partnership business is sold to a limited company and the share capital issued to the vendor partners in consideration for the net assets transferred to the company.

To emphasise this essential legal difference between a limited company and its members, reference should be made to *Salomon* v. *Salomon & Co., Ltd.* [1897] A.C. 22. Briefly, Salomon, a leather merchant and wholesale boot manufacturer, sold his business for £30,000 to a limited company, whose members comprised Salomon, his wife, four sons and daughter. The six members of his family each subscribed for one £1 share, but Salomon himself received 20,000 £1 shares and £10,000 debentures, secured by a floating charge on the assets of the company, in payment for his business. Thus, Salomon acquired complete control of the company. The company later became insolvent with insufficient assets to meet in full either the debentures or the trade creditors. Actually, the assets realised £6,050 against unsecured trade creditors totalling £8,000, and £10,000 secured by the debentures held by Salomon. The trade creditors claimed the entire assets, contending that, as the company was entirely controlled by Salomon, he and the company were one and the same person and he could not owe money to himself. The House of Lords decided that the company was in law a person quite distinct from its members and, as a secured creditor is entitled to payment out of his security before the unsecured creditors, the assets had to be applied in part settlement of the company's debt to Salomon.

These principles have to be applied to the collection of cheques made payable to a limited company and provide the first golden rule for the collecting banker when

accepting such cheques. If the cheque is in favour of the company, it cannot be applied to the private account of a director of the payee company without searching enquiry and satisfactory explanation. In practice, the problem often arises with the virtual owner of a small private company who resents any suggestion that he cannot do what he likes with the monies of a business which he regards as his own. His wish to pay company cheques into his private account may not be fraudulent but, however undoubted he may appear to be, the position must be discussed. In most cases a tactful explanation from the banker will be appreciated and no further confusion will arise between the accounts.

The risks of failure to enquire in such circumstances are illustrated by the unfortunate experiences of Martins Bank in *A. L. Underwood Ltd.* v. *Bank of Liverpool & Martins Ltd.* [1924] 1 K.B. 775. In this case Underwood sold his business as an engineering and machinery merchant to A. L. Underwood Ltd. in consideration for the issue of shares in the company. He became sole director, holding 10,001 shares, and his wife held the only other issued share. The company banked with King & Co., but Underwood kept his private account with the Bank of Liverpool & Martins Ltd. Shortly after the formation of the company, Underwood started to pay into his private account cheques made payable to the company, and between December, 1919, and February, 1922, the bank collected 45 of these cheques for amounts totalling £8,502. In November, 1922, Underwood died and a receiver was appointed by the debenture holders of the company. An investigation of the books revealed the frauds and the receiver sued the collecting bank for conversion. The bank claimed the protection of Section 82, but it was of no avail because the bank could not make good the contention that it had acted without negligence. No enquiries had been made. In the Appeal Court, Banke, L.J. stated: "The cheques were plainly the property of the company. They were endorsed by Underwood as sole director, a fact which, instead of absolving the cashiers from inquiry, appears to demand the exercise of greater caution on their part, having regard to the fact that the cheques were being paid into Underwood's private account. Many of the cheques were marked in a way which of itself ought to have put the cashiers on enquiry. I entirely accept the view of the learned Judge with regard to the conduct of the cashiers, and I think that his conclusion establishes not only negligence on their part, but such an absence of ordinary enquiry as to disentitle the appellants from relying on a defence founded on the ostensible authority of Underwood. I feel satisfied that the obvious enquiry whether the company had not got its own banking account would have put a stop to the fraudulent system adopted by Underwood, and I do not think that it lies in the mouth of the appellants to say that an enquiry would have been useless."

These words of thirty years ago are a plain warning to the collecting banker to-day, but the risk is not limited to the relatively simple case of a director attempting to apply company cheques to the credit of his private account. After distinguishing between the legal entity of the limited company and the entities of its members, it is next prudent to mention that cheques payable to a limited company clearly cannot be collected for the private account of any official or employee of the payee company. The link between the payee and the party seeking to obtain the proceeds of the cheque is so obvious that the need for full enquiry and confirmation from the company need not be pursued here.

Hannan's Lake View Central Ltd. v. *Armstrong & Co.* (1900) 16 T.L.R. 236, provides the earliest example of such negligence where cheques payable to the company were collected for the private account of the secretary of the company, and the bank was held to have acted negligently.

In more recent years the problem has widened and safety now demands that no cheque payable to a limited company should be collected for an account other than that of the payee without adequate enquiry. The extent of such enquiry will depend upon the surrounding circumstances, including particularly the relationship between the payee and the account holder presenting the cheque for collection. The payee company may be a subsidiary of the customer whose account is to be credited, or vice versa, or the cheque may have been passed forward in settlement of a debt due from the payee company to the holder of the cheque. Such transactions are, however, unusual to-day. It can be argued with reason that a cheque is still a negotiable instrument (unless crossed " not negotiable ") and when endorsed in blank by a payee company it is payable to bearer. Why then is the banker expected to enquire before accepting such a cheque for collection for the account of a third party ? It is a matter of established business practice. A limited company to-day is presumed to have a banking account into which it normally pays all its receipts. It would be unusual for a limited company to negotiate cheques to third parties without passing the item through its books. Receipts are banked, whilst payments are made by separate entry by cash or the issue of a cheque. This is the accepted business practice to-day and departures from it cause the collecting banker to make enquiry.

The above general conclusion was partly established by the banking witnesses in *E. B. Savory & Co.* v. *Lloyds Bank Ltd.* [1932] 2 K.B. 122, when they stated that it was the recognised practice to refuse acceptance of a cheque payable to a limited company for the credit of an individual's account without enquiry. In the opinion of Mr. Goddard, K.C. (now Lord Chief Justice) " the only prudent course is for bankers to refuse to accept without enquiry or special instructions cheques made payable to companies for accounts other than those of the payee." There can be no clearer guidance on the point.

Reference is sometimes made to the older case of *London & Montrose Shipbuilding and Repairing Co. Ltd.* v. *Barclays Bank Ltd.* (1926) 31 Com. Cas. 67, when in the lower court Mackinnon, J., rejected the suggestion that wherever the named payee on a cheque is a limited company and the cheque has been endorsed by that payee the bank collecting on behalf of a third party is put on enquiry. " Mr. Schiller (counsel for the plaintiff) does not go so far as to suggest—indeed I think that even his boldness could hardly rise to that height—that whenever you have a third-party cheque, there is then the need for enquiry put upon the banker receiving payment for the indorsee. But he does suggest with I think almost equal boldness that wherever the named payee of a cheque is a limited company as distinct from an individual, and the cheque has been endorsed to an indorsee by that company, the bank collecting on behalf of that indorsee is put upon some sort of enquiry, and ought to enquire of the company whether the transaction is in order . . . I think that is putting it impossibly high." Although the bank succeeded at first, the Court of Appeal reversed the decision, deciding that on the facts (which are

not material for our purpose) there was clear evidence of negligence on the part of the bank. No opinion was, however, expressed on appeal concerning the third-party cheque feature.

In practice, the only prudent course is to enquire. If a satisfactory explanation is forthcoming, the cheque may be collected. The latest published example where prudent enquiry safeguarded the collecting banker is found in *Penmount Estates Ltd.* v. *National Provincial Bank Ltd.* (1945) 173 L.T. 344, where the Estate company claimed from the War Damage Commission through a firm of estate agents and a fraudulent employee of the agents intercepted the cheque from the Commission. The cheque was drawn for £67. 4*s*. 1*d*. in favour of the plaintiff company and crossed "not negotiable." The thief forged the endorsement of the payee company and passed the cheque through a confederate to a solicitor, who paid it into his clients account with the defendant bank. Apparently, the bank in the past had raised enquiry concerning similar cheques payable to other payees and had received the explanation that those payees had no banking account. Such an answer would naturally have been unacceptable in the case of the cheque payable to Penmount Estates Ltd. because a limited company is expected to have a banking account. Instead, the solicitor explained that he had obtained the endorsement of the cheque by his client so that it could be paid into his clients' account, from which account he would then issue his own cheque to the company for the amount, less his costs. Mackinnon, J., held that the bank had acted without negligence. They had raised enquiry and received an answer which a business man could accept. It was reasonable for a solicitor to pay into his clients' account the money of people other than himself and he had personally presented the cheque for collection. "It is true that, in the light of after events, the explanations given . . . may sound improbable to anyone in a suspicious frame of mind; but in my opinion the officials of the bank, doing their duty under Section 82, have not to be abnormally suspicious."

Cheques Drawn by a Limited Company

Any attempt by a fraudulent party to obtain the proceeds of a cheque drawn payable to a limited company is relatively easy to detect, but the conversion by an employee or director of cheques drawn by his company presents a more formidable problem because they are unlikely to be made payable to limited companies. The banker cannot be expected to query such a collection unless there is some fiduciary relationship between the drawer company and the customer presenting the cheque which is known to the collecting bank or should be realised by its officers.

The following examples will perhaps clarify the position. Suppose X, a customer of Southtown Bank, is known from the enquiries made when he opened the account to be an employee of ABC Ltd. and he presents for collection through his own account a cheque drawn by that company in favour of Q., who has ostensibly endorsed the cheque. By reason of the fiduciary relationship between X. and the drawer of the cheque, there is an obvious need for enquiry and the banker may not be satisfied without due verification from the company itself. On the other hand, if another customer, Y., described in the bank's records as a surveyor, presents for collection a cheque drawn by ABC Ltd. in favour of P., there is no prima facie need for enquiry. There is no known or suspected connection between Y. and ABC Ltd., and the cheque is endorsed in blank by the payee

and thus payable to bearer. It would be impossible in practice to query in effect all third party cheques and any attempt to do so would destroy the very essence of negotiability. The crucial test must be the known relationship between the customer presenting the cheque for collection and the drawer of the cheque. The closer the link between them, the deeper will be the enquiry expected from the bank if it is to act without negligence. Failure to enquire would be fatal if it subsequently transpired that the customer had no title to the cheque.

In *Souchette Ltd.* v. *London County, Westminster, & Parrs Bank Ltd.* (1920) 36 T.L.R. 195, a customer known to be the managing director and secretary of a limited company paid into his private account cheques drawn by the company in favour of one of its creditors. The bank made no enquiry and were adjudged negligent. Again, in *Carpenters Company* v. *British Mutual Banking Co., Ltd.* [1938] 1 K.B., 511, a fraudulent employee misappropriated the funds of the company, obtaining cheques properly drawn in favour of creditors of the company and paid them into his account with the bank. Special circumstances applied in this case because the bank was both collecting and paying the same cheques, but for our present purpose it is sufficient to note that the Court had no difficulty in deciding that the bank did not act without negligence and could not therefore secure the protection of Section 82.

Summary of the care necessary when Collecting Limited Company Cheques

For the sake of emphasis and for ease of reference, the following practical rules can be drawn from the foregoing discussion.

1. Do not collect a cheque payable to a limited company for the account of any director, official or employee of the payee company without searching enquiry, preferably obtaining independently from the company a confirmation of the explanation afforded by the presenter.
2. Do not collect a cheque payable to a limited company for the account of any third party without proper enquiry, the extent of which must depend upon the circumstances of the case. Particular care will be necessary when the customer is short of funds or some remote connection with the payee company is suspected.
3. Do not collect without stringent enquiry a cheque drawn by a limited company payable to a third party and apparently endorsed by the payee, for the private account of a director or employee of the company which drew the cheque.
4. Treat with care all cheques drawn by limited companies which are presented for collection for an account other than that of the named payee, but there is no prima facie case for enquiry in the absence of any known relationship directly or indirectly existing between the customer presenting the cheque and the drawer thereof.

The Risks of Negligence with Partnership Cheques

Similar principles apply when collecting cheques drawn in favour of a firm or drawn by a firm in favour of third parties, but certain distinctions merit special mention.

It is clearly unwise to accept for the private account of a partner cheques made payable to his firm without enquiry, and, if need be, reference to another partner for confirmation of the transaction. Whilst, unlike a limited company, a firm has no legal

entity, the interests of the co-partners naturally have to be safeguarded, and it is difficult to envisage upon what grounds a partner would be entitled in the ordinary course of business to the proceeds of a cheque in favour of his firm. Absence of enquiry would certainly vitiate the statutory protection. In like manner, cheques drawn by the firm in favour of third parties cannot be accepted for the private account of a partner without adequate enquiry. The obvious relationship between the drawer and the presenter demands that care be exercised by the collecting banker.

Difficulty may arise where a partner pays in to his private account a cheque which he has drawn on the account of his firm. Much will depend upon the surrounding circumstances, but in the absence of other factors which constitute a warning to the banker, there would appear to be no need for enquiry. The most blatant case for confirmation would be where the partner drew a cheque on the firm account payable to himself and applied it in reduction of his unsatisfactory private overdraft. If pressure by the bank for reduction on the account of the partner is shortly followed by the production of such a cheque, the need for prudent enquiry is clear. On the other hand, when dealing with a cheque of reasonable amount drawn by, and payable to, a partner of satisfactory standing, there is no cause for suspicion. After all, the partner may be drawing his share of the partnership profits, his commission due from the firm, or perhaps collecting repayment of a loan due to him from the firm. The safety of this view is upheld by *Backhouse* v. *Charlton* (1878) 8 Ch. D. 444, but the necessity for enquiry is not thereby automatically removed because the surrounding circumstances should always be reviewed.

Sole Traders—Cheques in the Firm Name

Particular care may be necessary when a customer requests the banker to collect for his private account a cheque made payable to a trade name. For example, customer M. presents for the credit of his account a cheque drawn in favour of Acme Trading Company and, in response to the immediate enquiry of the banker, M. states that he is trading in that name as sole proprietor of the business. To what extent is it incumbent upon the banker to verify such information? In the normal way the bank should be fully aware of the trading activities of its customer and the sudden introduction of a strange trade name would give grounds for enquiry. It will be recalled that in *Guardians of St. John, Hampstead* v. *Barclays Bank Ltd.* (1923) 39 T.L.R. 229, an account was opened for a new customer who described himself as D. Stewart and assured the bank that he was trading in the name of D. Stewart & Company. No attempt was made to verify the position and such failure by the bank was one of the counts upon which it was adjudged negligent.

The best course if local enquiries are unsatisfactory is to ask the customer to produce his certificate of registration under the Registration of Business Names Act, 1916, as evidence that he is in fact trading as sole proprietor of the given business. Granted that anyone can register as proprietor of any name upon payment of the prescribed fee, but the precautionary action of the bank may suffice to prove that it acted without negligence. Such prudence certainly protected the bank in *Smith & Baldwin* v. *Barclays Bank Ltd.* [(1944) reported in the *Journal of the Institute of Bankers*, Vol. 65 at page 171]. Briefly, Mr. Arthur Smith and Mr. William B. Baldwin traded together as partners in a printing firm known as the Argus Press, and they later admitted to the partnership

in somewhat informal manner a Mr. Bray, who, alas, was entrusted with the book-keeping of the business. In the course of two years, Bray converted five cheques totalling £894. 11*s.* 4*d.*, each of which was made payable to the Argus Press, by paying them into his private account at Barclays Bank instead of crediting them to the firm's account at Westminster Bank. The bank, however, had made proper enquiries and it was decided that they amply discharged the burden of proving that they had acted without negligence. In 1941 the manager of Barclays Bank—" and I think this shows the vigilance that at all events at that time he was exercising " (Stable, J.)—noticed the cheques in favour of the Argus Press being paid into the account and raised enquiry to which Bray replied that he had acquired the business from Smith and Baldwin. The following day he produced for inspection the certificate under the Business Names Act, which evidenced that on July 8, 1940, Mr. Bray had registered the Argus Press as a business of which he was the sole proprietor. This certificate had been in existence some months prior to the receipt of the cheques by the bank for collection and the manager was thereby satisfied that Bray had bought the business and was the registered owner of it. " The plain fact of the matter was that there was his customer who, as Mr. Maxwell (the bank manager) believed and as the fact was, was registered as the Argus Press. He was the only person in the wide world who was registered as the proprietor of the Argus Press (Smith and Baldwin had not registered the business themselves) and what more natural that into his account cheques made payable to that business should be paid," and so the bank succeeded in its defence.

It follows from this experience that, always providing there are no other untoward features demanding deeper enquiry, inspection of the certificate under the Registration of Business Names Act of 1916 is a sensible precaution which may well protect the collecting banker if in fact the customer is not the proprietor of the business and converts the proceeds of cheques belonging to the true owner of it.

Cheques Payable to a Customer in an Official or Fiduciary Capacity

Where a cheque is drawn payable to anyone in an official capacity, it clearly cannot be accepted for the private account of the payee. For example, a cheque in favour of " The Treasurer of Mudtown Gala " cannot usually be credited to the private account of X., even though he may be known to be the treasurer. On the other hand, if X. is of undoubted standing and the local Gala is a reasonably small affair, he may not wish to open a separate account for the treasurership and the bank may have to follow his wishes. More obvious examples occur with cheques made payable to " Y. The Collector of Taxes " or " Z., Borough Treasurer," or " A., executor of B," or " The Trustees of C." In all these cases the cheques are clearly intended for the public or trust account on which the named payee may perhaps operate, and the banker would collect them for any private account at peril. No need for enquiry, however, arises where cheques drawn in favour of such type of customer bear no reference to his official position or fiduciary capacity.

The practical dangers inherent in dealing with such cheques can be illustrated by reference to *Ross* v. *London County, Westminster & Paris Bank Ltd.* [1919] 1 K.B. 678, where de Volpi, a quartermaster employed in the Estates Office, set up by the Overseas Military Forces of Canada to collect the estates of their soldiers killed in the war, converted thirty-two cheques worth £3,900 over a period of ten months. His method was relatively

simple. In 1916 he opened a private account with the bank in Herne Hill into which from May, 1917, to April, 1918, he paid the cheques he had stolen from his office. Each cheque was drawn in favour of " The Officer in Charge, Estates Office, Canadian Overseas Military Forces " and duly endorsed on behalf of the payee. The Paymaster-General sued the bank for conversion and it was decided that, as the cheques were drawn payable to a public official, the bank was placed upon enquiry and, in failing to enquire, it had not acted without negligence. In evidence the bank manager admitted that he considered it his duty to enquire before accepting for a private account a cheque payable to a public official, but he endeavoured to excuse the failure to raise enquiry with de Volpi on the grounds that the branch staff changed frequently during the war period and the cheques were not brought to his notice.

The following extract from the judgment of Bailhache, J., provides a salutary warning to all members of every branch staff, and the need always to be alert when receiving any third party cheques for collection does not require further emphasis in this series of articles.

" I recognise that the same degree of intelligence and care cannot be looked for in a cashier as in an official higher in authority, such as a manager, and I am told that during the period in question the cashiers and clerks at these branches were being constantly changed, and that some of them could not have had very long experience of their work. I must, however, attribute to the cashiers and clerks of the defendants the degree of intelligence and care ordinarily required of persons in their position to fit them for the discharge of their duties . . . Each of the cheques in question was drawn payable to " The Officer in Charge, Estates Office, Canadian Overseas Military Forces," and was endorsed by that officer under the same description. Each cheque bore upon its face the fact that it was payable to the officer of a public department and not to a private person, and the endorsement on each cheque showed that it was being negotiated by that officer. It is not in accordance with the ordinary course of business that a cheque so drawn and endorsed should be used for the purpose of paying the debt of a private individual. It was highly improbable that the officer in charge of the Estates Office would hand to de Volpi cheques in this form with the intention that the latter should pay them into his private account. It therefore seems to me that when de Volpi presented these cheques with a view to having them credited to his private account a cashier of ordinary intelligence and experience should have been put on inquiry whether or not the credit ought to be made."

Agents Signing Per Pro their Principals

To complete the risks to the collecting banker in cases of this kind, it is necessary to explore the extent of care needed when asked to collect a cheque for a customer who has obviously drawn it as an agent for a disclosed principal, or endorsed the cheque on behalf of a principal named as payee. Do the words " per pro " alone give cause for enquiry ?

According to Section 25 of the Bills of Exchange Act, a signature by procuration operates as notice that the agent has but a limited authority to sign, and the principal is only bound by such signature if the agent in so signing was acting within the actual limits of his authority. Nowadays such notice of limited authority on the face of a

cheque cannot in itself demand enquiry, because all business units and corporations from local authorities, limited companies, down to partnerships and sole traders, necessarily have to delegate to agents powers to sign and endorse cheques on their behalf. Clearly there must be surrounding circumstances which place the collecting banker upon enquiry. The per pro signature, whether it be that of a drawer or endorser of the cheque, indicates limited authority, but the question must be whether the attendant circumstances suggest that the agent may be abusing that authority for his own benefit. In general, such cases are parallel to those discussed last month but, for the sake of emphasis, they merit discussion under this separate heading, and before reaching a practical conclusion, it is helpful to explore actual examples which have been before the Courts.

In *Morison* v. *London County & Westminster Bank* [1914] 3 K.B. 356, Abbot, a clerk and later manager to an insurance broker had authority to sign per pro his employer. He fraudulently both drew cheques payable to himself and endorsed cheques per pro Morison and paid them into his private account with Westminster Bank, who were later charged with conversion of the proceeds, and pleaded Section 82 in defence. It was decided that the bank had been negligent. The per pro signatures evidencing limited authority had to be linked with the other facts of the case. Abbot was known to be the manager of the drawer or payee of the cheques and the bank was placed upon enquiry, but in fact no enquiries were made. In the lower Court Lord Coleridge held that Section 25 had to be read together with Section 82. " In fact, a signature ' per pro ' was notice that the person so signing professed to act under an authority of some principal and imposed upon the collecting banker the duty of ascertaining that the party so signing was acting within the terms of such authority. If the defendants, the collecting bank, made no enquiries or inadequate enquiries, and if the agent had exceeded the limits of his authority, the defendants took the risk, and must suffer for their temerity." Upon Appeal, however, it was decided that Section 25 had no bearing on Section 82. " When a bill or cheque so signed in excess of authority has been honoured, Section 25 does not confer a right to recover the proceeds. If such a right exists in the particular case, it must be found elsewhere. Nevertheless, the fact that the signature to the cheques is made *per procurationem* and is not the signature of the principal, is not to be entirely disregarded. In my opinion, when considering whether the bank has acted without negligence, it is to be borne in mind with other facts and circumstances." Lord Reading, L.C.J.

At this stage, therefore, the opinion was that Section 25 and Section 82 were independent. Section 25 applied to rights and liabilities whilst a cheque or bill was current, but Section 82 applied after it had been discharged. This attitude was, however, altered by the decision of the House of Lords in *Midland Bank Ltd.* v. *Reckitt & Ors.* [1933] A.C. 1, which now demands attention.

In 1915, Sir Harold Reckitt authorised his solicitor, Lord Terrington, practising as H. J. S. Woodhouse & Co., to draw cheques on his banking account at Barclays Bank, Hull. The power of attorney was renewed from time to time ; it was wide in its terms and included a ratification clause whereby the principal agreed to ratify and confirm whatsoever the attorney did, or purported to do, by virtue of the power. Lord Terrington banked with Midland Bank Ltd. at their Cornhill Branch, where his

firm had maintained their account since 1899. He kept two accounts in the name of the firm, of which he was sole proprietor. No. 1 Account was used for private transactions and usually overdrawn, whilst No. 2 Account was for the business and generally in credit. The bank from 1922 onwards were uneasy about the accounts, doubting their right to set-off the business account against the overdrawn private account, and pressing Lord Terrington to correct the position. Early in 1922 he drew a cheque on Barclays Bank for £1,400 on the account of Sir Harold Reckitt, signing it in the form "Harold G. Reckitt by Terrington, his attorney," and paid it into his account at Midland Bank. In similar manner, eighteen months later he drew a cheque for £3,000 and applied it in reduction of his net overdraft. In subsequent years, Lord Terrington adopted the same procedure with thirteen other cheques and in all defrauded his principal of £17,890. All the cheques except two were crossed and marked "not negotiable," and on most of the occasions the account was overdrawn and there had been pressure from the bank. Sir Harold Reckitt sued the bank for damages for negligence and conversion and the bank, denying negligence, relied on Section 82 of the Act, pleading also that Sir Harold was estopped from recovering because he had granted the power of attorney, and had failed to object to the drawing of the cheques.

In the lower Court the bank succeeded, Rowlatt, J. deciding that as Lord Terrington could draw cheques without restriction he had power to draw them in favour of himself and to pay them into his account, and that the abuse of such power lay in the purpose for which he had used it. The bank were therefore under no responsibility in the absence of knowledge or notice of that abuse. Sir Harold appealed and the decision was reversed on the grounds that the bank, knowing of the power of attorney, could not deal with cheques drawn under it where they were fixed with notice or knowledge that the cheques were being used for unauthorised and fraudulent purposes. The bank then appealed to the House of Lords, but they were there held to have been negligent in not enquiring concerning the drawing of the cheques, the nature of which with the surrounding circumstances put them on notice that their customer had no right to the money. The position was explained fully by Lord Atkin in the following words.

"The only question, therefore, is whether the bank have established that they received payment in good faith and without negligence, and so brought themselves within Section 82 of the Bills of Exchange Act, 1882. Their good faith is not challenged. The issue therefore is confined to negligence, and the onus of proving the absence of negligence is plainly cast upon the bank. But for the section they are liable for conversion, and it is for them to bring themselves within the statutory protection. My Lords, it appears to me, when the facts are examined, that this case differs not in principle from *Reckitt* v. *Barnett, Pembroke and Slater* ([1929] A.C. 176), where Lord Terrington drew a cheque as attorney on Sir Harold Reckitt's account in payment of a motor car supplied to himself. It was held that the vendors were liable to Sir Harold for the amount of the cheque. Lord Carson shortly states the conclusion of all the members of the House when he says: 'It is clear (1) that the cheque was used to liquidate the private debt of Lord Terrington, (2) that the defendants knew it was so used, and (3) that the form of the cheque gave them notice that the money was not the money of Lord Terrington. In that state of circumstances there is no evidence or any possible inference which can be drawn that the agent was applying

his principal's money in discharge of any possible liability of his principal.' Precisely the same state of things exists here. Lord Terrington was applying these cheques in part payment of his overdraft—i.e., of money lent to him by the bank. The bank knew that he was doing so; indeed, it was at their repeated request that he made the payments. They had the same notice in the form of the cheque that the money was not the money of Lord Terrington. There is in the same way no evidence and no possible inference that he was applying this money in discharge of any possible liability of his principal. It seems to me clear that in an omission of an ordinary business precaution, in breach of a plain duty imposed upon a creditor to take reasonable care to see that a known agent paying his own debt to his creditor out of his principal's money is acting within his authority, the bank were negligent in making no inquiry as to their customer's authority to make these payments. I doubt whether he could have satisfied such inquiries however superficially made. Even if he had answered the first inquiry, the mere fact that the bank showed themselves to be on their guard would probably have stopped the frauds. But, be this as it may, no inquiry in fact was made, and the bank fail to show that they acted without negligence. The form of the cheque, as has been pointed out, necessarily points to the money being Sir Harold Reckitt's money. But to make the matter clearer, Section 25 of the Bills of Exchange Act, 1882, expressly provides that 'A signature by procuration operates as notice that the agent has but a limited authority to sign, and the principal is only bound by such signature if the agent in so signing was acting within the actual limits of his authority.' It seems to be suggested in the judgment of Lord Reading, L.C.J., in Morison's Case that the operation of this section was limited to the time before the instrument was honoured, but that after a bill so signed in excess of authority has been honoured Section 25 did not confer a right to recover the proceeds. If the words used meant to mark off a definite period within which alone the section affects legal rights, I see no ground for such a distinction. The effect of the statute is to give notice of limited authority on the face of the document, and this operates as and when the document is negotiated or delivered. The legal consequence of such notice may be to prevent the holder who obtains payment from supporting his right to have received payment. The case of *Reckitt* v. *Barnett, Pembroke and Slater Ltd.* is a good instance. The rights in respect of a bill after payment are no doubt matters of special consideration; but whether before or after payment, the fact that the bill contains on the face of it notice of limited authority to place on it the particular signature continues to be a fact affecting *pro tanto* the rights of the parties both before and after payment. What effect, if any, such notice has on an intermediate holder for value it is unnecessary to discuss."

Practical Conclusion

From this it is evident that a mere "per pro" signature alone does not place the collecting banker upon enquiry, but where it is accompanied by other suspicious circumstances surrounding the collection of the cheque, the need for enquiry is patent. The facts of the Reckitt Case can often be repeated directly or indirectly in practice and the need for care is by now quite obvious. Unfortunately, old established customers believed to be of unquestionable integrity may be involved, and the banker is naturally hesitant to raise enquiry which might damage the connection. It is difficult to lay down stringent rules as the facts of each case have to be weighed in the balance and the

opposing risks considered according to the parties involved. If there is nothing wrong, a reasonable customer will not usually object to a tactful enquiry, but suspicions will be strengthened if a customer adopts a militant attitude decrying the action of the bank in querying the matter. It will not help the banker to imitate the ostrich. The per pro signature has to be treated with care where accompanying circumstances place the bank upon enquiry. Basically, the practical principles are the same as those applied to the collection of cheques for the private account of an employee or director of a limited company or of a partner or authorised officer of a firm when the customer has drawn or endorsed the cheque on behalf of his employers. Within the same category are conversions by an executor, administrator or trustee employing estate monies to reduce his private indebtedness.

Account Payee Crossings

The next practical example of possible negligence within the meaning of Section 82 arises from the interpretation of the words "account payee" added to the crossing of a cheque presented for collection. Drawers of cheques are often urged by their creditors to-day to cross their cheques "account payee" before sending them in settlement of their debts. These magic words have no statutory support whatsoever and are in no manner authorised by the Bills of Exchange Act. Legally, they do not prevent the transfer of the cheque to a third party (*National Bank* v. *Silke* [1891] 1 Q.B. 435) and do not destroy the otherwise negotiable character of the instrument. If the words are inserted by the drawer, he strictly issues an ambiguous order, which firstly instructs the drawee bank to make payment to the given payee or to his order and then attempts to countermand the instruction by restricting payment to the account of the payee only. The paying banker can therefore disregard the direction, but the collecting banker ignores the order at his peril. It is well established that the words "account payee" are addressed to the collecting banker and signify the account for which the proceeds of the cheque are to be collected. To receive the proceeds of a cheque so crossed for an account other than that of the named payee without obtaining a satisfactory reply to detailed enquiry, would unquestionably be adjudged negligence within Section 82. The position is anomalous but has to be accepted. By virtue of past decisions, a drawer or even a subsequent holder of a cheque may issue these instructions to a collecting banker, despite the fact that there may be no legal relationship whatsoever between the collecting bank and the party inserting the words "Account payee."

The significance of the words "account payee" were first recognised as long ago as 1852 in *Bellamy* v. *Marjoribanks* (1852) 7 Ex. 389, and since then several cases have established beyond doubt the responsibility of a banker collecting the proceeds of a cheque so marked. In *Akrokerri (Atlantic) Mines Ltd.* v. *Economic Bank* [1904] 2 K.B. 465, such an addition to a crossing was looked upon as a direction to the collecting bank as to how the proceeds of the cheque were to be dealt with after receipt, and in *Bevan* v. *National Bank Ltd.* (1906) 23 T.L.R. 65, Channell, J., considered that it would be negligence to accept a cheque marked "account payee" for any account other than that of the named payee. In this latter case, however, the bank succeeded in their defence because adequate enquiry had been made. The cheques crossed "account payee" were payable to Malcolm Wade & Co. and collected for the private account

of a customer named Malcolm Wade. The bank were held not to have been negligent because in the circumstances it was reasonable for them to accept the assurance of Wade that he was trading in the name of Malcolm Wade & Co. Actually, he was merely the manager of that firm.

Again, in *Morison* v. *London County & Westminster Bank* (*ante*), although the point was not material, the following extract from the judgment of Lord Reading, L.C.J., brings out the effect of this addition to a crossing. "The words 'account payee' are to be found on the crossed cheques made payable to Abbott or bearer, or Abbott or order . . . The words 'account payee' are a direction to the banker collecting payment that the proceeds when collected are to be applied to the credit of the account of the payee designated on the face of the cheque."

Finally, the position is established by the case of *House Property Co. of London Ltd. and Ors.* v. *The London County & Westminster Bank Ltd.* (1915) 31 T.L.R. 479, where a solicitor acting for a trust fraudulently called in a mortgage and thus obtained from the Property Company a cheque for £800, which was drawn payable to the named trustees "or bearer" and marked "account payee." The solicitor paid the cheque into his own account at the St. Mary Axe branch of Westminster Bank, where there was no account of the trustees. In defending the action for conversion brought against them by the drawers and true owners of the cheque, the bank pleaded that they had acted without negligence and, if the crossing had any effect, they had collected the proceeds for the holder of a bearer cheque who was therefore the payee. It was decided that the bank had been negligent in collecting the cheque without enquiry and Rowlatt, J., summarily dismissed the bank's contention that in collecting for the account of the bearer they had collected for the payee. "That was a shallow argument, as "payee" did not mean the owner of the cheque at the time it was presented, but the name written across the face of the cheque—in this case F. S. Hanson & others."

Practical Conclusion

From the above legal survey can be drawn the simple conclusive practical rule that where a bank is asked to collect the proceeds of a cheque for someone other than the named payee it must first scrutinise the face of the cheque to see whether the words "account payee" have been inserted thereon by any prior party. If they do appear then the cheque should not be collected for the third party customer, unless his standing in undoubted and a satisfactory explanation is furnished. In making enquiry, due regard must, of course, be paid to all the surrounding circumstances, particularly the possible connection between the customer presenting the cheque for collection and the payee or drawer of it.

Collecting an "Account Payee" Cheque for Another Bank

To complete the survey of the "account payee" problem, a distinction must be drawn where one bank collects for the account of another bank. For example, an "account payee" cheque may be paid into the Post Office Savings Bank and the Post Office will then pass the cheque to a clearing bank for collection. In such event, there is no responsibility resting on the agent collecting banker to see that the cheque was applied to the account of the named payee. The collecting banker relies on the standing

of the bank or kindred customer for whose account the cheque is collected, and the onus of enquiry is upon the bank which originally receives the cheque direct from its own customer for collection.

This principle was established in *Importers Co. Ltd.* v. *Westminster Bank Ltd.* [1927] 2 K.B. 297, where cheques drawn on the National Provincial Bank by Importers Co. Ltd. in favour of German payees, from whom they had bought goods, were stolen by their German agent named Schultze. The cheques were crossed and marked "account payee only." Schultze, instead of forwarding them as instructed to the payees, forged the endorsements and applied the cheques to the credit of his private account at the Oscar Heilmann Bank in Dresden. This bank then endorsed the cheques to the order of its agent, Westminster Bank, to whom they were sent for collection, and Westminster Bank duly credited the proceeds to the account of the Oscar Heilmann Bank in its books. When the frauds were discovered, action was brought against Westminster Bank to recover £1,905. 15*s.* 11*d.*, being the total amount of a number of the cheques, and the bank pleaded Section 82 in defence, contending that the words "account payee only" were not a direction to them collecting as agents of the Oscar Heilmann Bank.

Mackinnon, J., held that there was nothing to arouse the suspicion of Westminster Bank and it was protected by Section 82. This decision was affirmed by the Court of Appeal, who also rejected the contention of Importers Co. Ltd. that, as it was impossible for the bank to know the account which had been credited with the "account payee" cheques, they undertook such business at their own risk. Without such a reasonable interpretation of the banker's duty when collecting "account payee" cheques for another bank, it would in fact be impossible to carry out the most extensive agency functions which clearing banks undertake daily for foreign banks and for innumerable home savings banks, etc., who are not members of the Clearing House. It follows that when Smalltown Bank accepts an "account payee" cheque payable to Z for the credit of its customer, X, and has, of necessity, to employ Southtown Bank to collect the proceeds from the drawee bank, then Southtown Bank will not be negligent, within the meaning of Section 82, in collecting the cheque for the account of Smalltown Bank, and cannot be responsible to the true owner.

Divided Knowledge

This survey to date has emphasised the vital importance when collecting a third party cheque of considering the relationship existing between the customer applying the cheque to his account and the named payee or the drawer thereof. Many examples have been cited of conversion by employees or agents of the payee and of the drawer. To assess the position, all the relevant facts have to be known to the collecting bank, but it often happens that the knowledge can be divided between the branch receiving the cheque for collection and the branch where the account of the customer is maintained. These risks were brought out in *Lloyds Bank* v. *E. B. Savory* [1933] A.C. 201, which was discussed at length in pages 492/495 of our May issue and now demand consideration under a separate heading. Suppose that X is a customer of Southtown branch of the Z Bank, who know that he is employed as the cashier of Acme Trading Company, a firm of woolbrokers. X steals from his employers a crossed cheque for £60 drawn in their favour and goes to Northtown Branch of Z Bank, where he pays the cheque in for

the credit of his account at Southtown Bank. He endorses the cheque as proprietor of Acme Trading Company and, in response to the enquiry raised by the bank cashier in Northtown, he readily confirms that he is the sole proprietor of this business. If the cheque is then sent through the clearing by Northtown Branch for collection and Southtown Branch merely receive a credit for X which gives no details of the cheque, the fraud can be perpetrated without fear of immediate disclosure, and the Z Bank will undoubtedly be adjudged negligent and thereby lose the protection of Section 82 when action for damages is brought by the true owner. On the one hand, Southtown Branch are unaware that their customer had applied to his account a cheque payable to his employers. On the other hand, Northtown Branch accepted the cheque in blissful ignorance that X was in fact merely the cashier of Acme Trading Company. This simple example brings home the risks of divided knowledge between branches of the same bank. Such deficiencies in the branch credit system were discussed at length in the Savory Case, and it will be seen from the following extract from the judgment of Scrutton, L.J., in the Court of Appeal that the Court did not consider the practical difficulties of marrying such information between branches provided any excuse.

... "it is obviously desirable that the manager or cashier concerned with the customer's account should look at a cheque paid in, to see who is the drawer and who is the payee, and at the paying-in slip to see who pays the cheque in. He ought not to confine himself to the amount for which the cheque is drawn.

"The difficulty in the present case arises from the way in which the banks work a system, in itself unobjectionable and commercially useful. One branch of the bank would, of course, not cash a cheque drawn by a customer who has his account at another branch without further enquiry. The former branch has not the information as to the customer's signature or the state of his account which would enable it safely to do so. But for many years a branch, which I call 'the receiving branch,' has received a cheque for account of a customer who has an account at another branch, which I call 'the customer's branch' ... The practice by which the receiving branch sends the cheque direct to the Clearing House instead of remitting it to the customer's branch, is obviously of commercial convenience as saving delay, and does not involve risk, as the customer's branch will not allow the customer to draw against it till that branch hears of it and hears that it has been cleared. But unless the customer's branch knows the drawer, payee, and person paying in the cheque, there is nothing to put that branch on enquiry, and protection to the true owner is destroyed. In such a case knowledge is divided, so as to become useless. The receiving branch may know the drawer and payee of the cheque, and who presents it, but has no information as to the status of the employee or the name of his employer; the customer's branch only knows the amount of the cheque and to whose account it is to be credited, but not the drawer or payee. But Lloyds, and apparently other banks, carry out the very legitimate system of receiving at one branch a cheque for the credit of the customer at another branch in a way which does distribute the information and defeats the protection against risk. They cause the person paying in at the receiving branch to sign a paying-in slip which contains the name of the customer and the branch at which he banks, the amount of the cheque, and the name of the person paying in, and they send this slip to the customer's branch; they do not tell the customer's branch the drawer or payee of the cheque. The customer's

branch has therefore no opportunity of using its knowledge of the customer or his employer. The receiving bank, I gather, would make enquiry if the payee was a company or firm other than the customer, but has no other knowledge that would put it on enquiry. The bank suggests that it would take too much time to pass on the extra information. Pickford, J., said in *Crumplin* v. *London Joint Stock Bank* ((1913) 30 T.L.R., 99, 101); ' It was no defence for a bank to say that they were so busy and had such a small staff that they could not make enquiries. If they could not make enquiries when necessary, they must take the consequences.' The same remark applies to passing on necessary information to the customer's branch. But I do not understand the bank's difficulties. In one of the branches in question the bank received 4,000 cheques a day, of which 80 to 100 were for transmission to other branches, 2 to 2½ per cent. of the total cheques. In the case of each of these 100 cheques they do in fact send on the paying-in slip, which they require the payer-in to fill up, to the customer's branch. They have only to alter the form of the paying-in slip so as to require the person paying in the cheque to insert in that slip the name of the drawer and payee, and the necessary information is given to the customer's branch without any additional trouble to the receiving branch. The bank say that they perhaps cannot read the drawer's signature, but in the form suggested the payer-in would have to read it. If he could not, it would be very suspicious. The bank relied on a long-established practice of bankers not to give this information. I attach no importance against the bank to the fact that we were told they are now considering whether they should alter the system. Prudent alterations to avoid damage after it has happened are not necessarily evidence of negligence before the damage has occurred, but I agree with Lord Tomlin's remark in *Bank of Montreal* v. *Dominion Gresham Guarantee & Casualty Co.* ([1930] A.C. 659, 666): ' Neglect of duty does not cease by repetition to be neglect of duty.'

" It is not necessary to go in great detail into the facts as to the accounts of Perkins and Mrs. Smith respectively, for the Judge finds, and counsel for the bank agree, that if the customer's branch in each case, Perkins and Smith, had had all the information that the receiving branch had to add to its own information, its manager would have been put on enquiry, and the fraud would have been discovered. The division of information prevented the discovery."

Similar views were expressed by the colleagues of Scrutton, L.J., and when the appeal of the bank was discussed by the House of Lords. To combat such risks most banks then introduced a system whereby the branch accepting the cheques advises the branch receiving the credit of the names of the drawers and payees of cheques received for collection. The extent of these precautions probably differs between the banks. It is known that one bank has introduced a special type of credit slip which calls for the names of the drawers and of the payees of every cheque paid in for the credit of another branch or agent. Other banks perhaps limit the advice to information concerning third party cheques only and some may, in the interests of speed and labour-saving, further limit the system to third party cheques of material size. A complete system to convey all the essential information concerning every cheque to the branch with the customer's account eliminates the risk of omission, but entails relatively heavy work for the safety thereby obtained. If a cheque is prima facie payable to the party whose account is to be credited, there can be little risk of conversion. It is the third party

cheque which demands care and, if branches can be relied upon to pick out such items when accepting credits and furnish the necessary details to the customer's branch, the possibility of negligence by reason of divided knowledge is removed. Moreover, in these inflationary days a bank may perhaps be content to accept the risk with smaller cheques and for practical reasons establish a prudent minimum figure for the amount of cheques, the details of which are to be sent forward with the credit. Whatever the system may be, the practical risk of divided knowledge when collecting cheques in the branch credit system is now apparent.

(Our review of the practical examples of negligence under Section 82 will be concluded next month.)

The Lending Banker

Balance Sheets

(Continued)

The Gone Concern Approach

If the banker is satisfied from a general survey of the balance sheet that the current financial position of the potential borrower is reasonably sound in relation to requirements, the next step may be to make a much more detailed analysis of the position, using what is known as the break-up or gone concern technique. Whether all the tests outlined in this and subsequent articles are employed in every case will usually depend upon the relative importance, or perhaps marginal nature, of the advance and the practice of the particular bank, but all the major features have been included to present as complete a practical picture as possible. Even though a bank may not pursue the analysis to the point of actually estimating the final risk, many of the principles to be discussed will inevitably be applied to a survey of the assets disclosed in the balance sheet. What follows must not, therefore, be regarded as an inelastic hidebound method to be employed in full regardless of the circumstances of any particular proposal. It is a description of the detailed tests available for adoption as the need arises. They are complementary to the going concern basis and, at best, furnish a supplementary guide to the bank to assist in reaching the correct decision.

Basic Principles

This final approach is made on the assumption that the current financial position is strong enough to warrant granting the advance, but with the appreciation based on long experience that, through circumstances which cannot be foreseen, the borrower

might fail at some indefinite and relatively remote future date. If the going concern approach to the balance sheet reveals the risk of failure within a short period, no advance will be granted or steps will be taken to curtail or recover any existing indebtedness. The prospect will be apparent at a glance from the balance sheet figures. On the other hand, the strongest financial positions can be irrevocably damaged by serious trading reverses, over-optimism, bad management, unexpected competition, changes in fashion, new inventions or even a general trade depression. What would be the position of the bank if any such unexpected development arose after the advance had been taken? The only safe test is to attempt to estimate the position on the worst possible basis, which must be the bankruptcy or liquidation of the borrower. In such event, however remote or unlikely it may appear to be at the time when the advance proposal is under consideration, the assets remaining would have to be sold by the agents of the trustee or liquidator under the hammer, in the worst possible conditions, to produce cash. After covering all the costs of winding-up, the proceeds of such forced realisation would then be distributed to meet the claims of the secured and preferential creditors, and lastly, if enough remained, to pay a dividend to the unsecured creditors. The object of the approach, therefore, is to estimate what dividend would be payable to the bank and other unsecured creditors in the event of the failure of the borrower in the remote future, and the method is first to assess the forced sale value of the assets according to the likely market available for them, and then to decide how the total cash proceeds would be distributed between the various creditors according to their respective rights.

It must here be emphasised that there can be no rule of thumb or standardised table of percentages applying to every case. Each balance sheet is an entirely separate problem demanding independent assessment of the assets according to their age, type and marketability, all of which vary with the nature of the business of the borrower. Bearing this warning in mind, the general points to be considered when assessing the forced sale value of typical assets can now be discussed with reference to the balance sheet of X.Y.Z. Ltd. (please see page 502 of our May, 1954, issue). With imagination, the reader can apply the principles to the assets shown in this balance sheet and estimate a break-up value for each of them, so tracing step by step this means of estimating risk. At the same time, other features of relative interest to the banker will be brought out concerning such typical assets.

Goodwill

This intangible asset which so often appears in a balance sheet can never have a precise value. Goodwill was defined as long ago as 1810 as "the probability that old customers will resort to the old place." In fact it is the value attached to the reputation and connection of any business and in this respect is a very valuable asset. It is perhaps primarily upon the admitted value of this asset that lending bankers regularly grant extensive facilities, but this does not mean that a large balance sheet figure for goodwill is a welcome feature. It is an asset to be sensed from experience of the customer rather than seen in the balance sheet, and little, if any, value can be attached to it from the break-up standpoint. No mention of such an asset appears in the balance sheets of our joint stock banks today, but obviously they must enjoy immense goodwill, constituting

in effect a secret reserve. The balance sheets of many well known public companies likewise ignore goodwill as an asset or include it at a quite nominal value.

Goodwill, particularly in the case of a private trader, professional man, or a partnership, may originate from the personal reputation and influence of the owner or partners, or it may be built up on the quality of the goods sold or manufactured, or created by the situation of the business, enjoying perhaps local monopoly, or by judicious advertising—(My goodness, my Guinness !). Sometimes such goodwill is valued and capitalised. The cost of an advertising campaign may be partly charged to a goodwill account, or when a new partner is admitted to a firm the shares of the existing partners may be increased by the creation of goodwill which it is estimated they have built up before the new partner joins them. Frequently in the case of a limited company incorporated to acquire an existing business, goodwill represents the difference between the price paid for the business and the actual estimated value of the net assets. This excess price so paid is debited to goodwill and should bear a direct relation to the super profits of the business, being the profits remaining after all expenses, including reasonable remuneration for management, and the payment of the market yield on capital employed in a similar type of business.

Whatever may be the origin of any goodwill appearing in a balance sheet, the fact remains that it cannot have any value if the business fails. Successive bad years must reduce the goodwill and when the crash occurs it will be worthless. It follows that for break-up purposes the value of goodwill can be ignored.

This asset is normally disclosed in a separate item in every balance sheet and, in the case of a limited company, it must be set out under a separate heading. According to clause 8 (1) (*b*) of the 8th Schedule to the Companies Act, 1948, if the amount of goodwill or part thereof is shown as a separate item in, or is otherwise ascertainable from the books of the company, or from any contract for the sale or purchase of any property to be acquired by the company, or from any documents in the possession of the company relating to the stamp duty payable in respect of any such contract, or the conveyance of any such property, the said amount so shown or ascertained so far as not written-off shall be shown under a separate heading. Precisely the same rules apply to any patents and trademarks comprised in the assets of a limited company.

Patents and Trademarks

The value of any patents and trademarks are likewise dependent upon the continued success of the business and can therefore best be ignored by the prudent bank lender. It would certainly be difficult to find a buyer for a patent when the concern owning it had failed. The goods produced under the patent were probably unmarketable and no one else is likely to wish to manufacture them. Exceptions can, of course, arise where the failure results from bad management or lack of capital. Incidentally, a patent is granted for a period of sixteen years so that in any event its value is reducing year by year, and depreciation should be written-off accordingly. The registration of a trademark is also for sixteen years, but it may be renewed without undue difficulty.

(To date no cash has been realised for the global fund of the imaginary liquidator or trustee, but next month an analysis of typical fixed assets may produce more tangible results.)

Book Reviews

Value, Capital and Rent. By KNUT WICKSELL. With a Foreword by PROFESSOR G. L. S. SHACKLE. Translated by S. H. FROWEIN. Full Bibliography by ARNE AMUNDSEN. (London: Allen & Unwin, 1954. Pp. 180. 18*s*.)

THIS book, the first major work of the Swedish economist, Knut Wicksell, was published in German in 1893. Within the next thirteen years there were published at short intervals four more of his books in either the Swedish or German languages. The last two were made available to English readers as *Lectures on Political Economy* (*General Theory*, Vol. I and *Money*, Vol. II) in 1934, and an earlier one was translated into English as *Interest and Prices* in 1936. Now at long last, we have at our disposal, in Mr. S. H. Frowein's most readable and accurate translation, Wicksell's earliest work. This English edition gains by the inclusion of a complete bibliography of Wicksell's published works by Mr. Arne Amundsen and that of a very useful index.

Value, Capital and Rent is a genuinely brilliant exposition of price and capital theory. In it Wicksell, after briefly evaluating the classical and especially the Ricardian theory of value, traces subsequent developments which culminated in the " marginalist revolution ", initiated independently by Menger in Austria, Jevons in England, and Walras in Switzerland in the early eighteen-seventies. This modern, marginal utility approach to the theory of value was accompanied by the application of a novel, namely, mathematical technique, to problems of economics. Fired on by the frequently false use of these new tools, Wicksell set out to present the main features of the marginal theory of value in the most easily understandable mathematical form.

In his hands the twin aspects of value, that is the phenomena of exchange and the phenomena of production received their most rigorous treatment. Elegantly he demonstrated that economic gain is maximised by exchange when the ratio of the marginal utilities of two commodities is the same for both parties to the exchange. However, the Walrasian supposition that economic production could be regarded as nothing else but an exchange between commodities and the productive services of land, labour, and capital, proved to be mistaken, according to Wicksell, because of the faulty interpretation of the concept of capital.

It is at this point that Wicksell's theoretical power comes into full play. He substitutes Böhm-Bawerk's more modern capital concept for that of Walras ; he accepts two of the three grounds upon which Böhm-Bawerk bases his " discount of the future ", but he accepts them for the explanation of capital formation only. By introducing the assumption of a stationary economy, Wicksell can ignore the aspect of capital formation and can directly proceed to a marginal productivity explanation of interest.

However, like Böhm-Bawerk, he conceives of the true rôle of capital in production as merely an advance of " means of subsistence " to workers and to owners of land too, if the landed property is rented by the capitalist. These means of subsistence make possible the adoption of longer, but more fruitful, processes of production. In this way " time " that is the " length of the period of production " is for the first time introduced into economics as an independent source, a determinant, of economic equilibrium.

The " means of subsistence " advanced by capitalists simply equals the total stock of economic wealth. But how is that possible when there obviously must also be " produced means of production " ? The answer is that the stream of the means of subsistence flows continuously and if all the ongoing numerous processes of production are not at the same productive stage at the same time, but rather are staggered according to the degree of " ripeness " of their products, then the means of subsistence of the whole period are at any point of time in part already being consumed—with intermediate products, raw materials and machinery ready to take their place—and in part yet to be produced. In this case it is possible to say that the subsistence fund of the period equals the stock of all the then existing goods and this stock needs to be sufficient for only one-half of the period of production.

Thus the establishment of a relationship between the three data, i.e., the subsistence fund, the available quantities of land and of labour services proceeds through the link with the period of production. The length which the period of production assumes depends first on the (objective) magnitudes of the three data and second on the (subjective) choice of the capitalist-entrepreneurs, which in turn is orientated towards the largest possible profit. Objective and subjective forces combine to form a harmonious whole and to determine absolutely and relative to one another the length of the period of production, the rate of interest, wages and rent. Böhm-Bawerk, not being familiar with mathematical technique, was able to present a solution only for wages and interest, but Wicksell succeeded in carrying through a full generalisation of the theory and he could claim with justice to have " for the first time exactly stated the theoretical determination of wages, rent and capital interest ".

It is difficult to do justice to the high calibre of analysis contained in this great book, though easy to perceive its importance. It is in the thoughtful foreword by Professor G. L. S. Shackle to this English edition that the reader will find a concise account of the relation of Wicksell's other works to this one as well as a fine appreciation of the impact of Wicksell's contribution to economic theory in the light of the rapid advancement of thought during the first part of the twentieth century.

Leeds University. H. C. HILLMANN

British Public Finances. By URSULA K. HICKS. (London : Oxford University Press, 1954. Pp. 225. 6s.)

THERE is hardly ever a time in the history of a nation when its public finances are unimportant. True, their significance changes with the years. There are nations to-day (for example, Saudi Arabia) which, in this present century, have passed through the stage of relying hardly at all upon the central monies of the State for their development, to a situation in which practically the whole progress of the economy depends upon the revenues received by the Government. These are special cases ; normally, as for example in some African countries, the move from a self-supporting peasantry in tribal groupings to a fully-fledged nation with public revenues and expenditure has taken many years, and in a large number of cases is as yet incomplete.

Left to itself, the tribe can do little by way of making rapid economic strides, for its total resources will not generally buy for its members more than the bare necessities of

life. Politically this may not be disadvantageous. There are still patriarchal practices which have much to commend them. The tribe tends to isolate itself where food, clothing and shelter can be found and enjoyed—however primitive these things may be. One who, through bad luck, is indigent, will find the tribal chief ordering the more successful hunter or trader, to assist him. Reliance upon such practices is social security in embryo, and ideologies from the outside world mean nothing to such primitive minds; they do not need any other communism than that they already enjoy.

However, until he joins with the larger groupings of his fellows, the member of a tribe can hope for little progress. Without a share of a " national " income he cannot hope to procure the benefits such as, for example, those which medical science has made possible. Gradually the State evolves, and from this point, State expenditure and State revenues.

Modern States have their roots in the amalgamation of many tribes, and if the members of the tribes lose some of their social security in the earlier stages of this metamorphosis, they gain in economic possibilities. The larger groups are able to expand their total output, and the national product enlarges. Some part of the product is set aside by the governing body for its defence, its policing, its health, education and so on. Finally, in the course of time, the cycle is complete, and the State once more turns its attention to the social security of its inhabitants. A less personal, but possibly more generous, patriarch emerges, for by this time wants are no longer primitive but complex.

In some respects, the recent book by Ursula K. Hicks, *British Public Finances—Their Structure and Development* 1880–1952, published in the Home University Library series at six shillings, is the explanation and the story of a small part of such a change. In 1880 Britain was, of course, well out of the primitive stage. Income tax was over 60 years old. By 1910 it was progressive in incidence, and remains so to-day. What Mrs. Hicks has to say is therefore nothing by way of a history of our country's emergence from the primitive, but the more sophisticated story of how, in a modern state, ideas of obtaining and spending revenue have evolved. Furthermore, since in Victorian days the public finance of the country was but a tenth of the national income, and is now nearer 40 per cent., Mrs. Hicks attempts, with much success, to show what significance this has for the country's economy as a whole, and, (of particular value for banking readers) what effect it has had upon the control of credit.

Seventy years ago when her story opens the controllers of the public finance of this country saw their duties in simple terms. To raise revenues that would suffice to cover projected expenditures was the first requirement, and then, perhaps to save a little out of the revenues to pay off debts incurred in the past. Generally this elementary " house-keeping " was acceptable to the people. It was easy to understand, and besides, each year saw a growth in the population figures, in the national income, and in the tax yield, so that the surplus to be saved seemed to spring naturally from what, to modern ideas, was a low rate of taxation all round. And taxes ought to be kept as low as possible, so as not to impede private business. There was never any idea that budgetary deficits and surpluses might be manipulated to foster economic change. Financial accounts were merely accounts of receipts and payments, and the State did not intervene in business (with the exception of the Post Office) so that no careful distinction between spending

on current account as against capital expenditure was thought requisite. We suffer from this to-day, for we are still without that meticulous piece of accounting for capital and income in a clear form such as the Swedish people enjoy.

Out of the depression in the 1930's the art of budgeting for economic control has developed. Mrs. Hicks does justice to this change in as adequate a measure as is possible in a short work of this kind. Many banking students will be grateful, too, for her short critique of the Dalton "cheap money" policy—this is one of the easiest of her explanations. For the book will not be easy reading for all. To those taking the Institute Diploma examination, and already having passed the Economics test, it should, however, be most suitable.

Balance Sheets and the Lending Banker. By J. H. Clemens, A.C.I.S., A.I.B. Second Edition.—Revised and Enlarged. (London: Europa Publications, 1954. Pp. 271. 20*s.*)

The present second edition of this work (and interim printings of the first edition) confirm that practical bankers have found in its pages just that measure of help and guidance which the author sought to give. We need not at this stage go over the merits of the argumentation employed in the text—that has been done already. With the second edition, however, there are noteworthy additions which to our mind add considerably to the usefulness of the book. For example, there are specimen sets of accounts in the Appendix which enable the student as well as the practising lending banker to appreciate the universality of fundamental truths in lending. More attention has been given (with advantage) to over-trading, and space taken to deal expansively with consolidated accounts. We can recommend Mr. Clemens's book with every confidence.

Essays on Banking and Finance. (Bombay: The Economic Weekly, June, 1954.)

In honour of Mr. H. C. MacColl, who has just retired from the Chartered Bank of India, Australia and China, and in recognition of his Chairmanship for 12 years of the Bombay Exchange Banks' Association, a collection of *Essays on Banking and Finance* has been issued as a supplement to the Bombay *Economic Weekly, June*, 1954. It was a graceful compliment, and in the event, an effective one. The fourteen essays comprise contributions from Indian, Dutch, Australian, Japanese, Italian, German, Swedish, and (one) English writers. As might be expected, the more attractive subjects dealt with are those concerning indigenous banking, but had we the space there is much we would dilate in all the writings. Many of our readers may not have had an earlier chance to contemplate the "*Over Loan*" *Problem in Japan*—the high ratio of bank loans to deposits in that country. A brief survey of *The Capital Market in Scandinavia* (which in this context is held to include Finland) demonstrates clearly the effect of Government intervention as a large borrower, and the need which has arisen for industry to finance itself by ploughing back profits in the four Northern countries. An essay from Amsterdam informs the reader that *The Disappearance of the Premium on the Free Gold Markets* can be traced to the nervousness following Russian sales of gold. The President

of the Italian Bankers' Association finds that Italy eliminated one factor of economic instability when she abolished "mixed banking," and then goes on to show how, arising from the unfreezing of bank assets consequent upon this step, this affected the *Commercial and Industrial Credit in Italy.*

The Editor sought to speed the parting Mr. MacColl with a salute of fourteen guns from his friends. If, as distant spectators, the reports have not a uniformity of tone, or the flashes an equality of brilliance, we find the ceremony, taken as a whole, impressive.

The Directory of Directors 1954. (London: Thomas Skinner & Co., 1954. Pp. 816. £2. 5*s*. 0*d*.).

THIS Directory has reached its 75th anniversary and the 1954 edition now contains approximately 35,000 names. It is no light task to keep track of the changes made inevitable by the formation of new public companies (and some important private companies), by deaths, and by retirements. All the leading personalities in industry, commerce and finance are to be found in the pages of this Directory, and reference is made easy by a convenient thumb-indexing in alphabetical order.

Banking Appointments, etc.

BARCLAYS BANK LIMITED

Norwich District: L.H.O.	The Hon. G. W. H. Dawnay, a Local Director at Peterborough, to be also a Local Director.
Head Office, Income Tax Department.	Mr. W. G. Huggett, from Chief Office, to be Manager of Birmingham Branch. Mr. S. W. Andrieux, from Birmingham Branch, to be Manager of Brighton Branch.
Head Office, Inspection Department.	Mr. F. O. Sanders to be an Inspector.
Herne Hill	Mr. E. Ruddlesden, from Southwark, to be Manager.
Kingston-on-Thames . .	Mr. G. G. Williams, from Hill Road, Wimbledon, to be Manager.
Kingston Hill . . .	Mr. C. A. Shephard, from Teddington, to be Manager.
Wimbledon Common .	Mr. L. J. F. Cooper, from Windsor, to be Manager.
Benfleet	Mr. J. E. Edwards, from 24, High Street, Southend-on-Sea, to be Manager.
Bewdley	Mr. W. A. Detheridge to be Manager.
Bingley	Mr. H. Garnett, from Leeds, Vicar Lane, to be Manager.
Bishop's Castle . . .	Mr. R. G. Hamar, from Church Stretton, to be Manager.
Brigg	Mr. W. A. Haynes, from Bury St. Edmunds, to be Manager.
Crewe, Nantwich Road .	Mr. F. G. Burgess, from Lymm, to be Manager.
Kingsbridge	Mr. H. G. Stone, from Plympton, to be Manager.
Lincoln	Mr. A. J. Walsgrove, from Brigg, to be Manager.
Lymm	Mr. R. T. Cheshire, from Bowness-on-Windermere, to be Manager.
Patricroft	Mr. A. Greenhalgh, from Manchester, Royal Exchange, to be Manager.
Southampton, Shirley and Totton.	Mr. R. T. Clark, from Commercial Road, Portsmouth, to be Manager.
Whitchurch, Salop . .	Mr. C. F. R. Willis, from Bishop's Castle, to be Manager.

Bournemouth, Old Christchurch Road.	Mr. J. B. Goddard to be Assistant Manager.
Bradford, 10, Market Street	Mr. H. H. Tooth, from 69, Market Street, Bradford, to be Assistant Manager.
Leeds, Vicar Lane . .	Mr. H. M. Hill, from Walsall, to be Assistant Manager.

BARCLAYS BANK (DOMINION, COLONIAL AND OVERSEAS).—Mr. A. A. Penzhorn to be a General Manager in South Africa resident in Cape Town, with effect from October 1, 1954.

THE CHARTERED BANK OF INDIA, AUSTRALIA AND CHINA.—Mr. J. L. Milne has relinquished the office of Deputy Chairman; he will, however, remain a member of the Court of Directors.

Sir John Tait has been elected Deputy Chairman in succession to Mr. Milne.

DISTRICT BANK LIMITED

Heaton Chapel	Mr. Cedric Richards to be Manager.

LLOYDS BANK LIMITED

Major General Sir Robert E. Laycock, K.C.M.G., C.B., D.S.O., who has been appointed Governor and Commander-in-Chief, Malta, has resigned from the Board and from the Bank's Newcastle-upon-Tyne and Pall Mall Committees.

Head Office: Advance Department.	Mr. K. E. Hornby to be an Assistant Chief Controller. Mr. F. R. Kelly to be a Controller. Mr. J. M. Cooke, from Peckham, S.E., and Mr. D. H. Plimsoll, from Chester, to be Assistant Controllers.
Chief Inspector's Department.	Mr. P. Hellawell, from Brighouse, Mr. B. C. Hempseed, from Borough Road, Burton-on-Trent, Mr. B. M. P. James, from Henleaze, Bristol, and Mr. J. H. Jones, from Advance Department, Head Office, to be Inspectors. Mr. F. V. R. Giles, from Regent Street, W., has been appointed for Special Work under the General Managers.
Overseas Department, E.C.	Mr. L. J. Cowdery to be a New York Representative together with Mr. E. J. Stanley.
District Office, Devon and Cornwall.	Mr. D. A. J. Coates, from Cambridge, to be District Manager's Assistant.
Ashington	Mr. W. C. Robinson, from Hebburn, to be Manager.
Brighouse	Mr. G. M. Spencer, from Keighley, to be Manager.
Cambridge	Mr. M. W. Ramsay, M.C., of the Inspection Staff, to be Sub-Manager.
Canterbury	Mr. E. G. Crews, of the Inspection Staff, to be Sub-Manager.
Chester-le-Street . .	Mr. W. Henderson, from Ashington, to be Manager.
Craven Arms . . .	Mr. E. O. Phillips, from Ludlow, to be Manager.
Dagenham	Mr. T. Naylor to be Manager.
Hadleigh	Mr. W. L. Ambrose to be Manager.
Hebburn	Mr. F. C. Welsh, from Chopwell, to be Manager.
Mansfield	Mr. R. Kings, from Derby, to be Manager.
Mill Road, Cambridge .	Mr. G. Mawer, from High Wycombe, to be Manager.
Monmouth	Mr. H. R. G. Shardlow, from Craven Arms, to be Manager.
Old Hill	Mr. H. H. C. Bickerton, of Old Hill, to be Manager.
Plymouth	Mr. I. S. Luscombe, of the Inspection Staff, to be Sub-Manager.
Regent Street, W. . .	Mr. D. G. F. Murray, from Teddington, to be Sub-Manager.
Shirley, Birmingham . .	Mr. H. J. Winnington, from Kidderminster, to be Manager.
Somerton	Mr. F. W. Orledge, from Sturminster Newton, to be Manager.
Wotton-under-Edge . .	Mr. W. R. Fewings, from King's Lynn, to be Manager.

Martins Bank Limited

Head Office	Mr. D. O. Maxwell, Manchester District General Manager, has been appointed a Joint General Manager of the Bank at Head Office.
Liverpool District Office .	Mr. W. Weatherill, from Newcastle-upon-Tyne City Office, to be Liverpool Assistant District Manager.
Manchester District Office.	Mr. R. Tonge to be Manchester District General Manager. Mr. C. Whiteley, from Liverpool, to be Manchester Assistant District Manager.
Midland District Office .	Mr. N. N. Jobling, from North Eastern District Office, to be Midland District General Manager. Mr. J. A. Naisbitt, from Birmingham, has been promoted to a new position styled District General Manager (Special Duties).
North Eastern District Office.	Mr. L. J. Walton, from Liverpool City Office, to be North Eastern Assistant District Manager.
Douglas (Isle of Man) .	Mr. A. E. Costain to be Manager. Mr. J. E. Crowe to be Assistant Manager.
Liverpool City Office . .	Mr. I. Buchanan, from St. Ann's Square, Manchester, to be Sub-Manager.
London, 16/18, Brompton Road, S.W.1.	Mr. R. Gilbert, from Portsmouth, to be Manager.
Manchester City Office .	Mr. A. Greir to be Assistant Manager.
Manchester, St. Ann's Square.	Mr. W. E. Letham to be Sub-Manager.
Newcastle-upon-Tyne City Office.	Mr. C. S. Robinson, from Stockton-on-Tees, to be Sub-Manager.
Portsmouth	Mr. T. W. Hedges, from St. Helier, C.I., to be Manager.
Rock Ferry	Mr. R. E. Costain to be Manager.
Ulverston	Mr. T. R. Ion, from Barrow-in-Furness, to be Manager.

Midland Bank Limited

Head Office	Mr. T. C. Bouttell, of Coventry, to be a Superintendent of Branches.
London : Mill Hill .	Mr. G. Soutar, of Willesden Green, to be Manager.
London : Minories . .	Mr. J. C. Wollen, of Electra House, to be Manager.
Birmingham : New Street.	Mr. J. W. Cloke to be Assistant Manager.
Birmingham : Bennetts Hill.	Mr. H. Reed, of Temple Row, Birmingham, to be Manager.
Birmingham : Temple Row	Mr. E. C. Bird, of New Street, Birmingham, to be Manager.
Coventry	Mr. P. A. T. Pinder to be Assistant Manager.
Hoddesdon	Mr. M. J. Pickering to be Manager.
Irthlingborough . . .	Mr. R. W. Kirk to be Manager.
Loughton	Mr. B. W. A. Foxen, of Waltham Abbey, to be Manager.
Maryport	Mr. H. Preston, of Southport, to be Manager.
Thornaby-on-Tees . .	Mr. D. Mowforth to be Manager.
Waltham Abbey . . .	Mr. F. Higginson, of Hoddesdon, to be Manager.

Midland Bank Executor and Trustee Co. Ltd.

Income Tax Department .	Mr. G. Whillans to be Manager. Mr. H. W. J. Owen to be Assistant Manager.

The National Bank Limited.—The Rt. Hon. Lord Pakenham of Cowley, P.C., has been co-opted to a seat on the Board of The National Bank Limited, and as from September 1, 1954, has been appointed Deputy Chairman of the Bank.

NATIONAL PROVINCIAL BANK LIMITED

Mr. Edward Raymond Courage to be a Director.

Trustee Department	Mr. C. J. Morgan, from Trustee Department, Legal Section, to be Senior Solicitor.
Devizes	Mr. R. J. Farrant, from Deal, to be Manager.
Egham	Mr. F. C. Creasor, from Aylesbury, to be Manager.
High Wycombe	Mr. C. H. Wood, from Grimsby Docks, to be Manager.
Holyhead	Mr. W. Jones, from Towyn, to be Manager.
Hornsea	Mr. K. W. George to be Manager.
Llangefni	Mr. T. Owens, from Rhyl, to be Manager.
Plymouth	Mr. G. A. Blakey, from Torquay, to be Manager.
Purley	Mr. A. R. D. Bell, from High Wycombe, to be Manager.
Reading	Mr. N. D. Inkin, from Ringwood, to be Manager.
Ringwood	Mr. J. M. Hartley, from Devizes, to be Manager.
Infirmary Road, Sheffield	Mr. W. Horner, from Southampton, to be Manager.
Shrewsbury	Mr. W. A. H. Garland, from Llangefni, to be Manager.
Silsden	Mr. S. Firth, from South Shields, to be Manager.
Staines	Mr. A. G. Colver, from Egham, to be Manager.
Towyn	Mr. D. L. Jones, from Aberystwyth, to be Manager.
To be Inspectors of Branches	Mr. J. N. Currie and Mr. V. B. Clark, from Inspection Department.

ROYAL BANK OF SCOTLAND

Elgin	Mr. William J. Clark to be associated with Mr. J. W. McIsaac, as Joint Manager.

THE UNION BANK OF SCOTLAND LIMITED

Chambers Street, Edinburgh	Mr. Henry Thomson Gibson to be Manager.
Waterloo Place, Edinburgh	Mr. Stuart Alexander Macdonald, from Chambers Street, Edinburgh, to be Manager.

WESTMINSTER BANK LIMITED

Bath	Mr. D. C. D. Ellerton, from Hampstead, to be Manager.
Doncaster	Mr. S. H. Bosworth, from Doncaster, to be Manager.
Ebury Street	Mr. L. T. G. Gay, from Hanover Square, to be Manager.
Grays and Tilbury Docks	Mr. S. G. Mayhew, from Tilbury Docks, to be Manager.
Hampstead	Mr. S. W. Farr, from Clapham, to be Manager.
Iron Gate, Derby	Mr. E. N. Gray to be Joint Manager.
Newton Abbot	Mr. D. R. Kenyon, from Torquay, to be Manager.
Tunbridge Wells, Mount Ephraim and Southborough.	Mr. L. C. Brown, from Southampton, to be Manager.
Wiveliscombe	Mr. R. R. Hannam to be Manager.

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New Branches, etc.

AUSTRALIA AND NEW ZEALAND BANK LIMITED.—At 80, Hesse Street, Queenscliff, Victoria.

LLOYDS BANK LIMITED.—At Ferryfield Airport (sub to New Romney). Attendance for seven days a week from 8 a.m. till 7 p.m.—The postal address of the Pengam, Mon., branch is now 30, High Street, Fleur-de-Lis, Pengam, Mon.

MARTINS BANK LIMITED.—At 16/18, Brompton Road, S.W.1.

THE NATIONAL BANK OF AUSTRALASIA LIMITED.—At Blackburn and Numurkah, Victoria; at Liverpool Street, Sydney, New South Wales; and (receiving offices) at West Heidelberg, St. Kilda Junction and Manifold Heights, Victoria; Holland Park, Queensland; Glenorie and Rydalmere, New South Wales; and Ongerup, Western Australia. Branches have been established at Burleigh Heads, Queensland; and Mosman Park, Western Australia (formerly receiving offices).

NATIONAL BANK OF INDIA LIMITED.—At Bukoba, Tanganyika.

WESTMINSTER BANK LIMITED.—At Grays.

THE NATIONAL UNION OF BANK EMPLOYEES

Monetary Review

CONDITIONS in Lombard Street were again reversed last month. Whereas credit had become scarce during July, and was decidedly short at the end of that month, supplies increased after the August Bank Holiday, with an excess of funds on some days, although there was evidently no official selling of bills to absorb the surplus. During the second week of August the position tightened up for a time, the discount market needing considerable official assistance, which was mostly given indirectly through purchases of bills from the banks. Conditions soon eased again, with little official help required as a rule, and overnight loans against bonds, which had commanded $1\frac{1}{2}$ per cent. during the spasm of stringency, were obtainable down to 1 per cent. at times during the second half of the month.

	Floating Money	Market Rates—Bank Bills: Three Months	Four Months	Six Months	Bank Rate	Date of last Alteration
	%	%	%	%	%	
July 22, 1954 . . .	$1\frac{1}{4}$–$1\frac{3}{8}$	$1\frac{19}{32}$	$1\frac{5}{8}$	$1\frac{3}{4}$	3	May 13, 1954.
Aug. 21, 1954 . . .	$1\frac{1}{4}$–$1\frac{3}{8}$	$1\frac{5}{8}$	$1\frac{5}{8}$–$1\frac{11}{16}$	$1\frac{3}{4}$	3	
Movement	-	$+\frac{1}{32}$	$+\frac{1}{32}$	-	-	

A general adjustment of bill rates followed the rise in the average allotment rate for Treasury bills at the tender on August 13. The discount houses' rates for buying two, three and four months' commercial bills were raised fractionally, reversing the downward movement of the previous month and restoring them approximately to the levels of two months ago. The banks' rate for taking October and November Treasury bills from the discount market, which had previously been $1\frac{17}{32}$ per cent., was raised to $1\frac{9}{16}$, but as credit was plentiful at that time, resistance to this figure was shown. Rates finally settled at the lower rate for Octobers and the higher for Novembers.

The volume of Treasury bills offered at the weekly tenders was increased, and the declining total of applications indicated a slackening of demand from quarters outside the discount market. The discount houses thus obtained a larger quota, the proportion of their allotment to their applications rising from 34 per cent. late in July to 50 per cent. by the middle of August. At the tender on August 13, however, they reduced their tender price, and repeated the process a week later, raising the average allotment rate by nearly $\frac{1}{16}$ per cent. in three weeks.

Several considerations appear to have influenced the discount houses in lowering their tender price, one of the most important, of course, being the larger volume of bills on offer. Moreover, the market, which was short of bills at the beginning of the month owing to the poor allotments it obtained in July, had restored the position at the middle of August by the better quotas obtained. Contributory factors in the lower bid for the bills were the slight weakening of sterling against the dollar in the exchange market—which is largely a seasonal movement—and the decidedly firmer tendency of United States Treasury bill rates, which have at least a sentimental effect in London.

Although the size of the weekly tenders increased, the new bills conformed closely to maturities. Indeed, the Treasury repaid a small amount of tender Treasury bills as a result of the month's operations.

TREASURY BILLS

Date 1954	*Bills Offered £	(000's omitted) Bills Applied for £	Average Rate % s.	d.	Date 1954	*Bills Offered £	(000's omitted) Bills Applied for £	Average Rate % s.	d.
Jan. 1	250,000	316,625	42	8·29	May 7	240,000	405,615	40	10·84
,, 8	230,000	319,340	42	7·90	,, 14	260,000	391,695	34	1·75
,, 15	220,000†	335,490	42	7·72	,, 21	270,000	400,655	34	3·24
,, 22	210,000	343,815	41	11·78	,, 27	270,000	426,825	34	3·33
,, 29	220,000	381,975	41	11·04	June 4	270,000‡	414,325	32	11·61
Feb. 5	220,000	386,430	41	3·68	,, 11	260,000†	418,325	32	3·56
,, 12	230,000	369,925	41	4·04	,, 18	260,000†	400,440	31	7·57
,, 19	240,000	398,900	41	3,56	,, 25	260,000	426,015	32	1·48
,, 26	250,000	400,765	41	3·37	July 2	270,000	383,955	32	3·41
Mar. 5	270,000	412,905	41	3·83	,, 9	270,000‡	396,195	31	3·09
,, 12	270,000	414,560	42	2·61	,, 16	240,000	433,145	31	2·27
,, 19	260,000	365,575	42	3·64	,, 23	230,000	423,055	31	2.52
,, 26	270,000	405,205	42	3·62	,, 30	240,000	414,220	31	2·8
Apr. 2	270,000	399,040	42	4·01	Aug. 6	240,000	397,585	31	3·09
,, 9	270,000	392,195	42	4·05	,, 13	250,000	387,485	31	10·56
,, 15	230,000	417,175	41	7·41	,, 20	260,000	398,245	32	2·66
,, 23	230,000	415,375	41	7·34					
,, 30	230,000	437,545	40	11·36					

*To be taken up during following week. ‡ Under-allotted by £20 million. † Under-allotted by £10 million.

The Bank of England note circulation rose to a new high record of £1,716·9 million, shown in the return made up on August 4, but the usual seasonal decline in currency requirements then set in. In anticipation of even larger note requirements at the peak of the Bank Holiday demand, the fiduciary issue had been increased at the end of July by a further £25 million to £1,750 million—also a record figure. The return of notes was on a rather larger scale than last year, but the active circulation remains well over £100 million above its level a year ago.

August, particularly in the first half of the month, belied its reputation as a period of quiet business on the Stock Exchange. Activity reached a very high pitch during the first fortnight, and prices went ahead strongly under the lead of gilt-edged securities. No new development occurred to stimulate interest, which appeared to be based on general confidence and a belief that money rates are more likely to fall than to rise. The strength of Government stocks was reflected in most other markets, with prices always ready to make a ready response to good news affecting individual companies or securities. The leading oil shares, in particular, advanced after the conclusion of the settlement of the Persian oil nationalisation question, while South African gold mines had something of a revival. Later in the month, however, prices in general moved irregularly, adverse influences including industrial unrest at home and uncertainty over the course of international politics.

Apart from the £100-million British Electricity loan, which is the subject of a separate note on page 207 of this issue, several important new capital issues were made during the month. A large proportion of these consisted of fixed-interest securities, which had evidently been brought forward owing to the recent strength of the gilt-edged market. Walsall Corporation issued £2 million of 3½ per cent. stock, 1973–76 at 99, and although the terms were cut rather fine, the issue was well oversubscribed, and dealings in the stock started at a small premium. Other investment issues included £3½ million of East African Power and Lighting 5 per cent. debenture offered at 100½ and carrying conversion rights into the company's ordinary shares, and £2 million of

Ind Coope & Allsopp 4 per cent. debenture stock, 1964–68, at 98. Preferential allotment was given in each case to existing investors in the respective companies. A public offer for sale at par of £2 million of Bentley Engineering 5 per cent. debenture stock, 1964–69, was heavily oversubscribed.

THE BANKS' LARGER INVESTMENT HOLDINGS

The London clearing banks' combined statement for July completed the record of the banks' reactions to the Government's two recent loan operations. The three weeks between June 30 and July 21, when the return was made up, covered the offer to holders of £535 million of 1¾ per cent. Serial Funding stock, due for redemption in November, to convert into 2½ per cent. Exchequer stock 1963–4 or into 3½ per cent. Funding stock 1999–2004, and, doubtless as a result of investment changes induced by this operation, the aggregate investments of the banks increased during the three weeks by the relatively large sum of £39·3 million. Practically the whole of this addition, however, was due to the increased investments of the National Provincial and the Westminster.

Over the period between the May and July statements, which also covered the conversion of Defence 3 per cents. into 2 per cent. Conversion 1958–59—partly by a cash offer of the latter stock—the investments of the eleven banks were £46 million up. Against the size of the conversion operations as a whole this seems a small figure, suggesting that any major absorption by the banks of the new securities created by the refinancing schemes was partially offset by their sales of other securities.

(Figures in £1,000,000)

	Deposits, &c. £	Net Deposits £	Cash and at Bank £	p.c. to Deposits	Money at call, &c. £	Discounts: Treasury Bills £	Discounts: Other Bills £	Investments £	Advances £
July, 1954	6,466·1	6,244·0	533·8	8·3	427·9	1,091·1	93·9	2,350·7	1,823·5
June, 1954	6,533·2	6,233·9	531·3	8·1	454·5	1,079·9	90·2	2,311·4	1,837 0
May, 1954	6,335·2	6,104·4	500·6	7·9	463·1	1,033·9	87 9	2,304 7	1,793·3
April, 1954	6,377·5	6,088·5	534·6	8·4	489·2	999·8	88·3	2,279·9	1,772·1
March, 1954	6,243·2	6,009·9	511·9	8·2	467·7	995·1	83·2	2,269·4	1,760·2
February, 1954	6,237·1	6,010·0	504·5	8·1	453·6	1,034·0	79·2	2,274·9	1,740·6
January, 1954	6,456·6	6,232·1	526·0	8·2	482·6	1,254·0	76·4	2,277·1	1,694·7
December, 1953	6,694·2	6,370·2	541·9	8·1	500·7	1,338·2	79·0	2,275·2	1,706·8
November, 1953	6,418·6	6,193·7	520 3	8·1	469·2	1,299·6	54·8	2,245·1	1,676·0
October, 1953	6,373·3	6,155·6	518·4	8·1	476·1	1,286·7	53·1	2,238·1	1,654·0
September, 1953	6,319·6	6,095·1	515·0	8·2	475·5	1,322·0	53·8	2,136·9	1,662·3
August, 1953	6,240·1	6,041·2	510·7	8·2	456·1	1,275·5	55·2	2,139·7	1,676·4
July, 1953	6,246·9	6,013·7	510·5	8·2	460·2	1,183·8	60·6	2,140·2	1,730·0
June, 1953	6,299·5	6,023·3	514·0	8·2	469·1	1,148·7	60·4	2,136·4	1,762·9

The aggregate Treasury bill holdings of the banks expanded further during the three weeks to July 21, and their money at call was again reduced. These contrary movements, which have now been in progress for some months, have been attributed in some market quarters to the wide margin recently existing between call money and Treasury bill rates, making it more profitable for the banks to buy more bills and allow their call loans to run down.

The total advances made by the banks declined by £13·5 million in the July statement. A reduction of advances is not uncommon after the turn of the half-year, and in this instance it followed a large expansion in the previous month. Although gross deposits declined by £67·1 million, the overall result of the changes in the assets was a rise in net deposits of £10·1 million. Lloyds Bank seasonally-adjusted index of net deposits (1948 = 100) was unchanged on the month at 109·2.

Stock Exchange Values

BUSINESS on the Stock Exchange increased substantially last month, the volume at one time being the largest for many years. The expansion was surprising to most Stock Exchange members, since the period covering the August holidays is usually among the quietest of the year. Active business was accompanied by a sharp advance in values for British Government securities, buyers evidently taking a confident view of the future of long-term interest rates, and the rise in the gilt-edged market was reflected in higher quotations for most other stocks in the investment category, including Dominion, Colonial and Corporation stocks. Under the lead of the investment markets, industrials continued their upward movement, and were stimulated by further good dividend and profit announcements by leading companies. Most other sections, including the leading oil shares, South African Mines and tea shares, also improved. Later in the month, however, business in all markets slackened and the tone became irregular, confidence being disturbed by strike threats in various industries, and by fresh doubts regarding the international outlook. Our index number, taken at mid-August, does not reflect the hesitancy of markets in the latter part of the month.

Aggregate value of 365 representative securities on July 15, 1954	. . .	£6,847,203,000
,, ,, ,, 365 ,, ,, ,, August 14, 1954	. . .	£6,933,544,000
Increase	.	£86,341,000

OUR INDEX NUMBER

Below will be found the movements in the index number of the security values of our list of 365 representative stocks from the year 1929 down to the present time. Limitations of space have made it necessary to omit each month our lengthy list of variations in the fixed and variable dividend securities over a period of years, but once a year (in the January issue) we give the complete list of the index numbers of those stocks. The total index number for August, was 124·8, as compared with 123·3 for the previous month. The index number of the fixed interest group now stands at 119·7, as compared with 118·5 for the previous month, and in the variable dividend list the index number is 135·4, compared with 133·1 for the previous month.

SECURITY VALUES INDEX NUMBER
(*December, 1921 = 100)

Year	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1929 .	129·6	128·1	127·3	127·3	125·6	125·4	126·5	127·0	127·3	126·1	120·9	121·0
1930 .	121·7	121·8	123·3	124·2	121·9	119·0	120·3	118·1	119·3	117·6	116·8	114·4
1931 .	114·9	112·6	114·1	111·9	108·0	108·6	109·3	104·3	99·0	103·1	103·1	98·5
1932 .	110·9	101·7	105·5	102·1	101·8	100·6	105·5	108·4	111·4	112·5	109·6	109·4
1933 .	110·2	111·1	111·2	112·4	112·5	114·3	115·9	117·6	113·7	118·4	117·6	117·6
1934 .	120·4	121·5	122·9	123·8	122·6	121·8	122·5	122·3	122·8	123·6	126·9	126·5
1935 .	128·5	125·8	123·7	124·9	125·8	125·5	126·4	125·8	120·6	121·3	125·5	126·4
1936 .	128·1	129·6	128·6	130·2	129·1	128·8	129·4	131·0	131·7	133·9	133·8	133·1
1937 .	132·6	129·7	128·4	128·2	127·3	125·6	125·1	125·0	123·0	121·6	121·0	121·2
1938 .	121·6	120·7	115·9	119·2	117·0	116·3	118·9	117·7	113·8	114·2	114·4	112·4
1939 .	112·0	111·7	110·0	107·1	110·0	109·8	108·8	107·4	103·3	106·3	103·7	108·7
1940 .	112·2	114·3	114·6	114·1	110·4	104·6	106·0	107·8	108·2	110·0	111·3	112·0
1941 .	113·6	112·8	112·9	112·4	113·3	113·5	115·6	116·0	117·5	117·1	117·8	117·1
1942 .	118·5	117·0	117·0	117·3	117·2	117·5	118·1	118·2	119·0	120·4	129·0	120·6
1943 .	122·7	122·5	122·7	123·3	122·3	122·1	123·3	123·0	123·1	123·4	122·6	122·7
1944 .	123·3	123·8	123·6	123·5	123·8	124·5	125·0	125·1	124·6	124·9	125·3	125·5
1945 .	126·1	126·1	126·3	127·1	126·6	126·4	127·1	126·1	126·3	127·0	127·2	126·8
1946 .	128·3	128·9	128·3	130·1	131·7	132·1	132·2	131·4	130·4	130·0	132·1	133·2
1947 .	133·8	132·3	132·2	131·3	132·0	131·3	131·0	125·2	123·7	125·0	125·6	127·9
1948 .	128·8	127·6	126·8	127·5	128·2	128·0	126·9	127·0	127·1	127·3	127·6	127·5
1949 .	128·0	128·1	126·7	126·6	126·5	124·1	122·1	119·8	119·9	120·3	117·7	119·8
1950 .	119·1	119·0	118·8	119·5	119·7	121·4	119·9	120·0	122·3	123·8	124·0	122·2
1951 .	123·6	123·6	122·8	122·4	123·0	122·3	121·1	120·5	120·8	121·3	119·7	115·9
1952 .	115·4	114·7	111·6	112·9	113·1	110·2	110·3	110·7	113·7	112·6	112·0	113·0
1953 .	113·5	113·9	114·9	115·1	114·6	115·2	114·9	115·6	115·7	116·9	118·1	117·5
1954 .	117·8	118·9	119·2	120·7	121.5	120·9	123·3	**124·8**				

* Date when Securities revised.

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September, 1954

Table—Showing Values of Securities and their aggregate Variation during the past Month

[000's omitted]

Nominal Amount (Par Value)		Department, containing	Market Values July 15, 1954	Market Values Aug. 14, 1954	Change on the Month	Increase or Decrease Per Cent.
£			£	£	£	
3,566,600	10	British and Indian Funds .	3,374,523	3,413,778	39,255	+ 1·2
58,950		Corporation (U.K.) Stocks .	50,773	51,873	1,100	+ 2·2
83,550	8	Colonial Government Stocks .	77,584	77,869	285	+ 0·4
22,300	8	Corporation Stocks (Colonial) .	19,672	19,789	117	+ 0·6
21,050	7	Do. do. (Foreign) .	18,492	18,606	114	+ 0·6
598,230	26	Foreign Government Stocks .	214,625	216,722	2,097	+ 1·0
254,655	6	British Railway Debenture Stks.	‡301,278	‡301,278	..	..
310,765	6	Do. do. Preference Stks.	‡247,161	‡247,161	..	..
132,000	7	United States Bonds (Gold) † .	‡141,662	‡141,662	..	..
5,048,100	87	Fixed Interest Stocks . . .	4,445,770	4,488,738	42,968	+ 1·0
315,325	13	British Railway Ordinary Stock	‡72,406	‡72,406	..	..
18,900	5	Indian Railway Stocks . .	26,621	26,621	..	..
88,350	5	Colonial Railways .	121,092	121,423	331	+ 0·3
474,000	11	United States Railway Shares .	293,646	296,745	3,099	+ 1·1
141,200	20	Foreign Railways . . .	27,768	27,752	16	— 0·1
59,685	13	British Bank Shares . . .	209,355	211,255	1,900	+ 0·9
43,000	18	Colonial and Foreign Bank Shs	70,030	71,566	1,536	+ 2·2
18,121	10	Brewery Stocks . . .	65,687	66,792	1,105	+ 1·7
17,750	7	Canals and Docks . . .	21,777	22,614	837	+ 3·9
146,916	38	Commercial and Industrial Shs	595,907	606,227	10,320	+ 1·7
9,537	8	Electric Lighting and Power .	‡21,592	‡21,592	..	..
15,100	9	Financial, Land and Investment Shares	31,238	31,909	671	+ 2·2
30,680	7	Gas Stocks	‡27,895	‡27,895	..	..
9,343	17	Insurance Shares . . .	242,514	248,619	6,105	+ 2·5
58,294	14	Iron, Coal and Steel Shares .	100,471	105,544	5,073	+ 5·0
3,100	5	Nitrate Shares	641	641	..	..
42,649	10	Oil Shares	194,468	196,153	1,685	+ 0·8
5,402	9	Rubber Shares	2,311	2,292	19	— 0·8
17,456	5	Shipping Shares	27,828	28,432	604	+ 2·2
1,890	6	Tea Shares	5,473	5,786	313	+ 5·7
20,808	9	Telegraphs and Telephones .	56,839	56,778	61	— 0·1
27,716	7	Tramways and Omnibus . .	44,793	44,793	..	..
29,517	19	South African Mines . . .	87,126	94,627	7,501	+ 8·6
28,735	6	Copper Mining Shares . .	43,931	46,209	2,278	+ 5·2
11,859	7	Miscellaneous Mining Shares .	9,994	10,105	111	+ 1·1
1,635,333	278	Variable Dividend Securities .	2,401,433	2,444,806	43,373	+ 1·8
6,683,433	365	Grand totals	6,847,203	6,933,544	86,341	+ 1·3

† Designation of gold bonds retained though title apparently unwarranted.
‡ Entered at vesting prices.

BANKERS' MAGAZINE SHARE LIST

BANKS

Last Dividend Actual	Total for Year	Total for Previous Year	NAME	Quotations July 15, 1954	Quotations Aug. 16, 1954
1/6	—	5/	Alexanders Discount Co. Ltd. (£2, with £1 paid)	5 13/16xd	6⅛
1/2⅜	2/4¾	2/4¾	Do. do. 6% Cum. Pref. (£2)	47/6xd	47/6
9¾d.	—	2/	Australia and New Zealand Bank (£2, with £1 paid)	39/6	38/
1/‡	—	1/9‡	Bank of Adelaide Stock	30/	30/
5/7½	8/	8/	Bank of British West Africa Ltd. (£10, with £4 paid)	8	8⅜
£6	—	£15	Bank of Ireland Stock	—	—
4/	6/	6/	Bank of London & S. America Ltd. Stock	5⅛	5¼
30 cents	—	$1 40	Bank of Montreal (*London Register*) ($10)	£17	£17¼xd
9/‡	—	34/‡	Bank of New South Wales (*London Register*) (£20)	31½	31¼xd
40 cents	—	$1 80	Bank of Nova Scotia (*London Register*) ($10)	£17	£17¼
1/4½	2/7½	2/4½	Bank of Scotland (Governor & Co. of) Stock	61/	67/
9⅞d.	-	1/7½	Barclays Bank (Dom., Col. & Overseas) "A" Stock	13/	45/
1/	—	—	Barclays Bank Ltd., Ord. Stock	48/6xd	49/6
1/1½	1/1½	-	British Bank of The Middle East (£10)	24/	28/
30 cents	—	$1 20	Canadian Bank of Commerce (*London Register*) ($10)	£15	£15¼
1/4½	2/9½	16/**	Chartered Bank of India, Australia & China, Stock	43/	42/6
6d.‡	1/‡	1/‡	Commercial Bank of Australia Ltd. Ordinary (*London Register*) (10/)	17/	17/
2‡	4‡	4‡	Commercial Bank of Australia Ltd. 4% Pref. (*London Register*) (£10)	6	6
5·76d.		11·52d.	Commercial Bank of Scotland Ltd., "A" Shares (£1, with 6 paid)	23/6	24/6
1/	—	2/	Commercial Bank of Scotland Ltd., "B" Shares (£1)	44/	44/6
2/	—	4/	District Bank Ltd., "A" Shares (£5, with £1 paid)	90/6xd	91/6
1/	—	2/	Do. do. "B" Shares (£1)	44 xd	45/
2/	—	4/	Do. do. "C" Shares (£1)	93/xd	96/
5/	8/	7/	Eastern Bank Ltd. (£10, with £5 paid)	8¾	9
2/	—	7/6	English, Scottish & Australian Bank Ltd. (£5, with £3 paid)	6 5/16	6 5/16
6/3	8/9	7/6	Hambros Bank Ltd. (£10, with £2½ paid)	8¼	8½
7½d.	1/2½	1/2⅜	Do. do. "A" Shares (£1)	22/6	23/
£2	—	£5	Hongkong & Shanghai Banking Corp. (*London Register*) ($125)	£93½	£99½
4/	4/	4/	Ionian Bank Ltd. (£5)	65/	65/
1/4½	—	2/9	Lloyds Bank Ltd., "A" Shares (£5, with £1 paid)	65/xd	64/6
6d.		1/	Do. do. "B" Stock (£1)	23/6xd	24/6
4/4½	-	8/9	Martins Bank Ltd. (£20, with £2½ paid)	10¼xd	10½
1/9	—	3/6	Do. do. (£1)	84/xd	92/
17/6		35/	Mercantile Bank of India Ltd., "A" Shares (£25, with £12½ pd.)	29	34½xd
17/6	—	35/	Do. do. do. "B" Shares (£25, with £12½ pd.)	29	34½xd
7/		14/	Do. do. do. "C" Shares (£5)	11	14xd
4/		8/	Midland Bank Ltd. (£12, with £2½ paid)	9¼	9½
4/	—	8/	Do. do. (£2½)	9¼	9⅛
1/7½		3/2⅜	Do. do. (£1)	83/6	82/6
1/	—	2/2½	National Bank Ltd. (£5, with £1 paid)	40/	40/
160psts	200psts	200psts	National Bank of Egypt (Bearer) (£E10)	24½	24½
20/	40/	40/	National Bank of India Ltd. (£1, with 12/6 paid)	26/6	27/6
3/6	5/	4/	National Bank of New Zealand Ltd. (£7½, with £2½ paid)	91/6	100/
1/		2/	National Discount Co. Ltd., "A" Stock	42/	42/
1/		2/	Do. do. "B" Stock	48/	49/
1/2·28	-	2/4·56	National Provincial Bank Ltd., "A" Shares (£5, with 14/ paid	56/xd	58/
1/8¼	-	3/4½	Do. do. do. "B" Shares (£5, with £1 paid)	79/6xd	82/6
1/8¼		3/4½	Do. do. do. Shares (£1)	83/xd	87/
8/	8/	8/	Ottoman Bank (Bearer) (£20, with £10 paid)	8	8
35 cents	—	$1 40	Royal Bank of Canada ($10)	£15¾	£16½
1/9½	—	3/7½	Royal Bank of Scotland, Stock	89/	5⅛
1/3	2/3	2/3	Standard Bank of South Africa Ltd. (£2, with £1 paid)	42/	42/
1/	—	2/	Union Discount Co. of London, Ltd., Stock	50/xd	52/
2/	—	3/7½	Westminster Bank Ltd. (£4, with £1 paid)	90/6	89/
1/3	—	2/6	Do. do. Stock	61/	63/

*Bank-Insurance Units	26/10	27/7½
*Bank-Units	26/9¾	27/2¾xd
*Scottish Bank I. & I. T. Units (Scotbits)	34/4½	36/6
*Investment-Trust-Units	34/1½	36/6

* These prices include stamp duty and commission.
† Free of Income Tax.
‡ Australian currency.
‖ None on offer.
xd.—Ex Dividend.
** For £5 stock. Now quoted in £1 units.

BANKERS' MAGAZINE SHARE LIST

INSURANCE

Last Dividend Actual	Total for Year	Total for Previous Year	NAME	Quotations July 15, 1954	Quotations Aug. 16, 1954
14/	24/	22/	Alliance Assurance Co. Ltd. (£20, with £2½ paid)	32	36
14/	24/	22/	Do. do. New Shares (£1)	32½	38
8/	15/	15/	Atlas Assurance Co. Ltd. (£1, with 10/ paid)	8½	4½
1/7½†	—	7/6†	Britannic Assurance Co. Ltd., Ord. Stock	6	6¼ xd
2¼	5	5	Do. do. 5% tax-free, Cum. Pref. Stock	33/	33/
2/6	—	4/6	Caledonian Insurance Co. (£1, with 10/ paid)	6¾	7
6/6	11/6	10/	Commercial Union Assurance Co. Ltd., Stock	77/6	78/6
3/3	5/	4/6	Eagle Star Insurance Co. Ltd., Ordinary (10/)	117/6	6¼
3/3	5/	4/6	Do. do. Ordinary (£3, with 10/ paid)	106/3	111/3
4½d.	9½d.	9½d.	Do. do. 4% Cum. Pref. (£1)	18/	18/6
4½d.	9½d.	9½d.	Do. do. 4% 2nd Cum. Pref. (£1)	18/	18/6
1/	1/7½	1/7½	Economic Insurance Co. Ltd. (£1, with 5/ paid)	31/3	32/6
3/	4/6	4/6	Employers' Liability Assurance Corp. Ltd.	115/	5⅜
2/6†	—	5/†	Equity & Law Life Assurance Soc. (£5, with £1¼ paid)	14¼xd	15¼
4/	6/	6/	General Accident, Fire & Life Assurance Corp., Ord. (£1)	9½	9¾
6d.	1/	1/	General Accident, Fire & Life Assurance Corp., Cum. 5% Pref. (£1)	22/6	22/6
3/6	6/	5/	Guardian Assurance Co. Ltd., Ord. (£1)	9¼	9½
2/	—	4/	Do. do. do. Pref. (£5% non-Cum.) (£4)	83/6	83/6
4/3	6/9	6/9	Legal & General Assurance Soc. Ltd. (£1, with 5/ paid)	14¼	15½
3/	4/6	4/	Licenses & General Insce. Co. Ltd., Ord. (£1, with 10/ paid)	5¾	6¼
2	—	4	Liverpool & London Globe Insce. Co. Ltd., 4% Perp. Deb. Stk.	92¼	91¼
3/3	6/6	6/	London & Lancashire Ins. Co. Ltd., Stock	8½	8½
11/†	11/†	10/†	London & Manchester Assce. Co. Ltd. (£1)	21½	23½
13/9	20/	18/9	London Assurance, Ord. (£2½)	26¾	30¼
4½d.	9½d.	9½d.	Do. do. 4% Cum. Pref (£1)	18/	18/
5/	--	10/	North British & Mercantile Insce. Co. Ltd., Ord. (£1¼)	14½	14¾
2	4	4	Do. do. do. do. 4% Pref. Stock (Non-Cum.)	89¼	90½
11/6	20/	18/	Northern Assurance Co. Ltd., Ord. (£10, with £1 paid)	30¼	31/
14/4·209	18/10·209	17/0·716	Do. do. Participating Pref. (£7½)	24	27
8/†	12/†	12/†	Pearl Assurance Co. Ltd., Ord. (£1)	22¼	22¼
7½d.	1/2½	1/2½	Do. do. 6% (Tax free), Cum. Pref. (£1)	37/6	37/6
8/6	—	17/	Phœnix Assurance Co. Ltd. (£10, with £1 paid)	23¼	25
8/6	—	17/	Do. do. (£1)	23½	24¼
2/3½	2/3½	2/3½	Planet Assurance Co. Ltd., Ord. (£1, with 10/ paid)	60/	60/
1/	--	2/	Provincial Insurance Co. Ltd., 10% Cum. Pref. (£1)	37/6	37/6
6d.	--	1/	Do. do. do. 25% Cum. Pref. (4/)	20/6	20/6
15/†	—	21/†	Prudential Assurance Co. Ltd., "A" Shares (£1)	43	44½
2/6†	2/6†	2/†	Do. do. do. "B" shares (£1, with 4/ paid)	5⅛	6⅛
3/	3/	2/6	Reinsurance Corp. Ltd. (£1, with 12/6 paid)	77/6xd	83/1½
6/	10/	10/	Royal Exchange Assurance, Stock	8¼	8¼
5/9	11/	10/	Royal Insurance Co. Ltd., Stock	15¾	16¼
4/	--	7/	Scottish Union & National Ins. Co., "A" Shares (£10, with £1 paid)	9¾	11⅛
15/	--	26/3	Scottish Union & National Ins. Co., "B" Shares (£5, with £3¾ paid)	34¼	38¼
3/	5/	5/	Sea Insurance Co. Ltd. (£1)	6¾	6½
2/10	5/	5/	Sun Insurance Office Ltd. (£1, with 10/ paid)	6⅜	7¼
1/9†	—	3/6†	Sun Life Assurance Society (£1)	9¾	10½
1/	1/	1/	Victory Insurance Co. Ltd., Ord. (16/ with 6/ paid)	37/	48/9
2/	2/	1/10½	World Auxiliary Insce. Corp. Ltd. (£1, with 10/ paid)	40/	45/
4/9	8/	8/	Yorkshire Insurance Co. Ltd. (£2½, with 10/ paid)	13¾	13½
9/6	16/	16/	Do. do. (£1)	26¼	27¾

*Insurance-Units	28/7½xd	29/10½
*Conbits	17/9	18/6

* These prices include stamp duty and commission.
† Free of Income Tax.
xd.—Ex Dividend.

Bank Reports, Meetings, etc.

BANK OF BRITISH WEST AFRICA LIMITED

The net profit for the year ascertained in the manner indicated is £244,712; add amount brought forward from the previous year, £101,704; making available, £346,416; out of which the following appropriations have been made: interim dividend of 3 per cent. *less* income tax, paid November 13, 1953, £19,800; to contingencies account, £75,000; to reserve fund, £100,000—£194,800; leaving a sum of £151,616; from which the directors recommend a final dividend of 7 per cent. be paid, *less* income tax, making 10 per cent. for the year, £46,200; balance carried forward, £105,416.

Balance Sheet, March 31, 1954

LIABILITIES

Capital—Authorised 400,000 shares of £10 each	£4,000,000	0	0
Capital—Issued 300,000 shares of £10 each, £4 per share paid up	£1,200,000	0	0
Reserve fund including share premium, £400,000	1,200,000	0	0
Balance of profit carried forward	105,416	0	0
	£2,505,416	0	0
Current, deposit and other accounts, provision for taxation on the profits to date and inner reserves	79,435,310	0	0
Proposed final dividend, *less* income tax	46,200	0	0
Liabilities on acceptances, confirmed credits and other engagements on behalf of customers	9,646,440	0	0
NOTE:—Balances in West African currency have been converted at par and foreign currencies at rates ruling on March 31, 1954.			
	£91,633,366	0	0

ASSETS

Cash in hand and in transit and with banks and agencies	£6,028,782	0	0
Money at call and at short notice	25,825,000	0	0
Bills of exchange—Treasury bills, £21,040,000; other bills, £685,643	21,725,643	0	0
Investments at or under market value—British Government securities, £13,676,342; other quoted securities, £150,483 (including securities lodged with the West African Currency Board as security for currency issued to branches)	13,826,825	0	0
Loans, advances and other accounts, *less* provision for bad and doubtful debts	14,430,720	0	0
	£81,836,970	0	0
Liabilities of customers for acceptances, confirmed credits and other engagements	9,646,440	0	0
Premises and furniture at cost, *less* amounts written off	149,956	0	0
	£91,633,366	0	0

C. HOARE & CO.

Annual Statement of Assets and Liabilities July 5, 1954
prepared in the two hundred and eighty-second year of their banking business

LIABILITIES

Capital authorised and issued	£120,000	0	0
Reserve	380,000	0	0
	£500,000	0	0
Current, deposit, and other accounts (including provision for contingencies)	8,774,048	11	7
	£9,274,048	11	7

ASSETS

	£	s.	d.
Cash in hand and balances at bankers	£752,885	4	1
Cheques on other bankers in course of collection	161,002	7	0
Money at call and short notice	1,830,000	0	0
	£2,743,887	11	1
Investments— (*a*) quoted :—at or under market value : British Government Stocks, £3,945,571. 18*s*. 0*d*. ; other securities, £242,533. 3*s*. 1*d*. ; (*b*) unquoted (written down to nil), nil ; (*c*) subsidiary companies (written down to nil) nil	4,188,105	1	1
Advances to customers and other accounts	2,172,055	19	5
Freehold property at cost *less* amounts written off—bank premises £100,000 ; adjoining premises, £70,000	170,000	0	0
	£9,274,048	11	7

THE STANDARD BANK OF SOUTH AFRICA LIMITED

INCLUDING the undivided balance of £310,447 brought forward at March 31, 1953, the balance of profit and loss account, after payment of all expenses and rebating current bills, is £946,258 ; out of this an interim dividend at the rate of 1*s*. per share, £350,000 *less* income tax, for the half-year ended September 30, 1953, was paid on January 30, last, amounting to £192,500 ; leaving a balance of £753,758 ; from which has been appropriated :—to bank premises, £175,000 ; leaving now available, £578,758 ; which the directors recommend be allocated as follows :—Dividend of 1*s*. 3*d*. per share on 7,000,000 shares, £437,500 *less* income tax, making a total distribution for the year at the rate of 2*s*. 3*d*. per share, £240,625 ; balance to be carried forward to next account, £338,133.

Balance Sheet, March 31, 1954

LIABILITIES

	£	s.	d.
Capital authorised, 5,000,000 shares of £2 each, £10,000,000 ; 5,000,000 shares of £1 each, £5,000,000—£15,000,000.			
Capital issued, 5,000,000 shares of £2 each £1 paid, 5,000,000 ; 2,000,000 shares of £1 each fully paid, £2,000,000.	£7,000,000	0	0
Reserve fund comprising share premium account, £2,191,000 and revenue reserve	7,000,000	0	0
Profit and loss account, unappropriated balance	338,133	0	0
Notes in circulation	520,689	0	0
Current, deposit and other accounts (including reserve for contingencies and other reserves and provisions including taxation on profits to date)	292,028,125	0	0
Balances in account with subsidiary companies	300	0	0
Proposed final dividend (*less* income tax)	240,625	0	0
Acceptances, and other liabilities on account of customers, £19,019,869 ; customers' bills, etc., for collection, per contra, £37,495,509	56,515,378	0	0
	£363,643,250	0	0

NOTES :—(1) There are contingent liabilities not included above in respect of confirmed letters of credit and guarantees entered into in the ordinary course of business estimated at £22,500,000.

(2) Capital commitments for expenditure on premises amount to approximately £1,090,000.

(3) Assets and liabilities in foreign currencies have been converted into sterling as follows :—
Union of South Africa and Rhodesian currencies.
£100 currency = £100 sterling.
East African currency.
20 shillings E.A. = £1 sterling.
Other currencies at official rates on March 31, 1954.

(4) The accounts of the Standard Bank Finance and Development Corporation Limited as at March 31, 1954, are annexed.

The subsidiary nominee companies do not trade, made neither profit nor loss during the year and are not dealt with in group accounts in view of the insignificant amounts involved.

ASSETS

CURRENT ASSETS—			
Cash in hand and with bankers, £35,413,559; cash at call and short notice, £10,001,173; gold bullion in hand and in transit, £64,379	£45,479,111	0	0
Bills discounted	19,342,752	0	0
*Investments:—United Kingdom, Union of South Africa and other Government, Municipal and other securities (including £1,487,138 deposited as security for notes issues, etc.); quoted on London Stock Exchange, £28,660,446; quoted on South African Stock Exchanges, £45,960,406	74,620,852	0	0
*These investments in the aggregate appear at under cost and below market values at March 31, 1954.			
Bills of exchange purchased and current at this date	18,892,617	0	0
Advances—customers and other accounts, £118,580,619; balance in account with subsidiary company, £278,493	118,859,112	0	0
Remittances in transit	23,247,939	0	0
FIXED ASSETS—			
Investments in subsidiary companies— Standard Bank Finance and Development Corporation Ltd., 200,000 shares of £5 each, fully paid, at cost, £1,000,000; nominee companies (written down to nil), nil; trade investment—Bank of British West Africa Ltd. 33,334 £10 shares, £4 paid, at cost *less* amounts written off, £56,251	1,056,251	0	0
Bank premises and property (including furniture and fittings) at cost, *less* amounts written off	5,629,238	0	0
Liabilities of customers for acceptances, forward exchange contracts, etc., £19,019,869; customers' bills, etc., for collection, per contra, £37,495,509	56,515,378	0	0
	£363,643,250	0	0

CONTINUED STEADY EXPANSION

THE one hundred and forty-first Ordinary Meeting (being the Annual General Meeting for the year 1954) of The Standard Bank of South Africa Ltd. was held on July 28 in London, Sir Frederick Leith-Ross, G.C.M.G., K.C.B. (the Chairman), presiding.

The following is an extract from his circulated statement:

As would be expected of an Institution such as ours, which has to develop with the development of Africa, the total of our assets continues steadily to grow. This year the Balance Sheet has increased by something over £25 million to a total of £363 million. You will recall that in 1953 we decided to increase our capital by £2 million and, although there were special reasons connected with the banking law in the Union of South Africa which made this desirable, it is clear that an increase was more than justified by the continued expansion in our business. I may remind you that in 1939 the total of our Balance Sheet amounted to £86 million. In the fifteen years that have passed since then our figures have multiplied more than four times and, although the value of money has fallen considerably in the intervening period, there is no doubt that the business of the Bank has made real progress.

The balance of profit for the year after providing for taxation and after making transfers to the Pension Fund and to the Reserve for Contingencies amounts to £635,811. An Interim Dividend of 1s. per share was paid on January 30, last.

The Board recommend that a final dividend for the year of 1s. 3*d*. per share be paid.

UNION OF SOUTH AFRICA

Despite recurrent apprehensions of political trouble, both international and domestic, the year under review has again been one of marked prosperity in the Union. It has been described as a year of consolidation rather than of expansion: but this does not mean that it has been a period of stagnation. On the contrary, there has been a steady and substantial advance in almost every field of economic activity. Agriculture, which still remains the basic industry of the country, has had a particularly good year, new records of production having been attained in many sectors. The development of industry has continued and the output of private manufacturing undertakings increased in value by about 10 per cent. The new goldmines, in which some £150 million have been invested since the war, are now beginning to produce substantial results, over £5 million worth of gold having been obtained from the few mines in the Orange Free State field as yet in active production. A number of others are commencing operations and receipts from uranium are beginning to supplement the income from gold. Altogether, there is every justification for confidence in the economic prospects of the country.

SOUTH-WEST AFRICA:—General trading conditions were quieter than in 1952, as shopping demand, which is markedly sensitive to seasonal factors, was somewhat hesitant owing to the after effects of the 1952 drought and to lower prices received for karakul pelts. Total turnover was, however, fairly satisfactory owing to continued expansion in the fishing industry and to the maintenance of activity in the mining industry. The territory continues to achieve a substantial favourable external balance of payments. Farming is still the mainstay of the territory. Conditions improved in 1953 owing to timely rains and this should ensure maintenance of general business activity in the current year.

THE FEDERATION OF RHODESIA AND NYASALAND :—On September 3, 1953, the Federation of Rhodesia and Nyasaland came into being. This marks a great step in the history of these territories. Although the general economy of the country is, at present, relatively undeveloped, its economic potential is high and there is every reason to hope that with its combination of agricultural and mineral wealth, and growing industrialisation, the Federation will develop into a strong and well balanced economic unit.

SOUTHERN RHODESIA :—The volume of general business during the past year showed a moderate decline, and turnover in the wholesale and retail trades was lower than that of the preceding year. Staple goods continue to command a sustained turnover but purchases of non-essential items have become more and more selective. Wholesalers and retailers are, nevertheless, looking forward with confidence to more prosperous trading conditions as it is expected that the volume of general business will expand under the impetus of the new arrangements enabling goods to move more freely between the federated territories.

NORTHERN RHODESIA :—Most branches of the economy of Northern Rhodesia made progress and business conditions are expected to continue on a satisfactory level.

NYASALAND :—The external trade of the territory continues to develop and, with a sharp fall in the value of imports, the adverse trade balance was considerably reduced.

EAST AFRICAN TERRITORIES :—In Kenya the commercial community has withstood very well the setback caused by the state of emergency which arose from the activities of Mau Mau elements.

Development is still taking place, but the influx of capital from overseas has been on a considerably reduced scale and there have been few new settlers.

In the troubled areas business has been restricted but commitments continue to be met and the effect on wholesale business has not been as serious as might have been expected. The Colony's adverse trade balance is slightly less than a year ago but the cost of operations to deal with Mau Mau troubles is putting an excessive strain on the finances of the Colony.

The reports and accounts were adopted.

THE YORKSHIRE PENNY BANK LIMITED

Statement, June 30, 1954

LIABILITIES

Share capital authorised—1,000,000 " A " ordinary shares of £1 each, £1,000,000 ; 250,000 ordinary shares of £5 each, £1,250,000 ; 500,000 ordinary shares of £1 each, £500,000—£2,750,000.			
Share capital issued—1,000,000 " A " ordinary shares of £1 each, fully paid, £1,000,000 ; 250,000 ordinary shares of £5 each, £3 paid, £750,000 ; 500,000 ordinary shares of £1 each, fully paid, £500,000	£2,250,000	0	0
(Uncalled Capital £500,000)			
Reserve fund (including share premium account—£1,000,000)	1,250,000	0	0
	£3,500,000	0	0
Amount due to depositors and other accounts (including reserves and provision for taxation, £96,103,485 ; amount due to subsidiary companies, £108)	96,103,593	0	0
	£99,603,593	0	0

ASSETS

Cash in hand, and balances with bankers	£15,425,106	0	0
British Treasury bills	6,190,255	0	0
British Government securities—No undated stocks are held ; all have definite redemption dates and are redeemable at par. The securities are stated at an amount which is below both cost and redemption value, and under the market value at June 30, 1954.	54,945,640	0	0
	£76,561,001	0	0
Loans to local authorities	14,024,133	0	0
*Advances to customers and other accounts	7,015,880	0	0
Shares in subsidiary companies	108	0	0
Bank premises and other properties, at cost, *less* amounts written off	2,002,471	0	0
(Other properties have previously been included in the item marked *)			
	£99,603,593	0	0

BANK OF ENGLAND—ANALYSIS OF RETURNS

Date	Notes in Circulation	Gold Coin and Bullion	Government Securities in Banking Department	Other Securities in Banking Department	Discounts and Advances	Public Deposits †	Other Deposits: Bankers	Other Deposits: Other Accounts	Total Deposits	Reserve	Proportion of Reserve to Liabilities	* Rate of Discount
1954	£	£	£	£	£	£	£	£	£	£	%	%
Apr. 7	1,592,177,930	3,170,476	319,454,439	13,970,071	13,623,407	14,261,148	287,039,883	64,029,212	365,330,243	35,992,546	9·8	3½
„ 14	1,609,013,783	3,111,103	334,974,439	14,064,852	7,868,407	15,531,087	278,151,799	64,578,373	358,261,259	19,097,320	5·3	„
„ 21	1,615,116,260	3,058,960	347,904,439	13,866,124	10,533,407	11,402,834	292,531,493	63,479,299	367,413,626	12,942,700	3·5	„
„ 28	1,612,557,523	3,057,023	355,564,439	13,966,752	7,528,412	18,313,938	289,261,467	67,144,528	374,719,933	15,499,500	4·1	„
May 5	1,613,339,928	3,045,938	353,054,439	13,865,875	9,607,700	28,571,611	275,462,513	69,331,693	373,365,817	14,706,010	3·9	„
„ 12	1,612,905,757	3,039,676	346,179,439	14,049,662	8,387,700	24,579,121	270,615,582	70,663,933	365,858,636	15,133,919	4·1	„
„ 19	1,609,768,690	3,088,542	338,829,439	13,902,285	6,973,542	24,049,416	267,424,762	68,623,570	360,097,748	18,319,852	5·0	„
„ 26	1,613,419,801	3,114,245	338,664,439	13,863,081	6,958,549	23,224,529	267,813,508	69,804,116	360,842,153	14,694,444	4·1	„
June 2	1,624,694,203	3,123,022	301,174,439	13,892,973	15,448,654	15,033,855	280,769,342	70,134,815	365,938,012	53,428,819	14·6	3
„ 9	1,637,150,536	2,614,397	321,444,439	13,795,246	8,838,464	19,792,591	279,262,501	67,439,539	366,494,631	40,463,861	11·0	„
„ 16	1,640,712,366	2,606,565	326,759,439	13,855,763	9,419,493	15,431,666	287,175,604	66,221,884	368,829,154	36,894,199	10·0	„
„ 23	1,641,508,951	2,602,785	320,924,439	13,847,245	13,609,713	15,640,509	283,457,867	67,234,525	366,332,901	36,093,834	9·8	„
„ 30	1,647,428,299	2,613,862	360,924,439	13,668,501	11,744,709	19,265,109	307,742,860	71,342,609	398,350,578	30,185,563	7·5	„
July 7	1,661,664,096	2,616,642	349,389,439	13,635,658	7,200,065	27,100,502	273,962,832	66,888,961	367,952,295	15,952,546	4·3	„
„ 14	1,675,996,045	2,626,727	323,356,629	13,895,766	7,793,713	23,628,858	287,694,077	67,120,686	378,443,621	51,630,682	13·6	„
„ 21	1,701,273,046	2,616,544	337,096,629	13,877,583	8,808,713	21,428,801	277,519,491	68,889,743	367,838,035	26,343,498	7·1	„
„ 28	1,715,828,844	2,632,656	324,911,629	13,805,207	8,232,000	25,066,224	269,084,102	71,294,557	365,444,883	36,803,812	10·0	„
Aug. 4	1,716,917,875	2,621,056	329,351,629	13,721,998	5,767,000	25,502,973	273,740,439	66,967,194	366,210,606	35,703,181	9·7	„
„ 11	1,695,486,058	2,617,695	289,556,629	13,602,265	7,560,000	15,423,072	270,848,763	63,224,566	349,496,401	57,131,637	16·3	„
„ 18	1,670,527,136	2,660,612	333,491,629	13,770,421	5,015,000	15,275,610	274,214,479	76,514,075	366,004,164	32,133,476	8·7	„
„ 25	1,653,967,835	2,655,021	296,411,629	13,697,754	6,985,000	16,285,529	267,212,856	63,849,226	347,347,611	48,687,186	14·0	„

* The figures of the Returns are those of the Wednesday on which the Returns are dated but except when otherwise stated the dates of the change in the Official Rate of Discount apply to the following day (Thursday).
† This figure includes H.M. Treasury Special Account.

MONTHLY STATEMENT OF BALANCES OF LONDON CLEARING BANKS

(000's omitted)

July, 1954	Barclays	Coutts and Co	District	Glyn, Mills & Co.	Lloyds	Martins	Midland	National	National Provincial	Westminster	Williams Deacon's	Aggregates
Date:	21st	21st	21st	21st	21st	21st	21st	20th	21st	21st	21st	
ASSETS	£	£	£	£	£	£	£	£	£	£	£	£
Coin, Bank Notes and Balances with the Bank of England .	110,468	4,036	19,960	5,563	100,883	24,057	114,991	7,212	66,431	68,484	11,750	533,835
Balances with and Cheques in course of collection on other Banks in the U.K. and Republic of Ireland	44,305	2,374	8,823	3,672	39,349	13,795	44,100	843	28,064	31,036	5,774	222,135
Items in Transit	—	—	—	—	12,079	—	—	—	—	—	—	12,079
Money at Call and Short Notice.	85,086	4,697	16,527	9,805	73,741	26,135	76,709	13,118	52,733	55,769	13,590	427,910
Treasury Bills Discounted . .	225,860	6,200	38,940	2,505	217,820	43,750	243,831	2,300	148,035	142,475	19,400	1,091,116
Other Bills Discounted . .	29,375	567	686	572	11,073	4,076	36,229	2,334	3,792	4,689	585	93,938
Investments at Book Value . .	513,353	18,730	97,756	13,737	434,847	117,413	489,827	27,917	272,826	309,536	48,709	2,350,651
Advances to Customers and other Accounts	368,491	16,432	59,608	21,965	310,704	90,016	379,551	30,814	265,207	239,573	41,107	1,823,468
Liabilities of Customers for Acceptances, Endorsements, etc.	45,535	2,377	14,186	6,323	97,949	15,524	52,072	1,479	35,705	58,726	11,234	341,110
Bank Premises Account . .	9,892	405	1,537	695	8,572	4,328	8,667	431	6,429	5,677	1,125	47,758
Investments in Affiliated Banks and Subsidiary Companies .	13,482	—	—	—	4,346	100	8,866	—	2,304	3,092	—	32,190
	1,445,807	55,818	258,023	70,837	1,311,363	339,194	1,454,843	86,448	881,526	919,057	153,274	6,976,190
Ratio of Cash to Current, Deposit and other Accounts	8·10	7·85	8·42	8·92	8·54	7·68	8·38	8·86	8·06	8·15	8·50	8·26
LIABILITIES												
Capital Paid up	22,915	1,000	2,976	1,060	15,810	4,315	15,159	1,500	9,479	9,320	1,875	85,409
Reserve Fund.	12,750	1,000	3,800	1,060	16,500	6,000	15,158	1,435	12,250	10,920	2,000	82,873
Current, Deposit and other Accounts	1,364,607	51,441	237,061	62,394	1,181,095	313,336	1,372,454	81,421	824,092	840,075	138,165	6,466,141*
Acceptances, Endorsements, etc.	45,535	2,377	14,186	6,323	97,949	15,524	52,072	1,479	35,705	58,726	11,234	341,110
Notes in Circulation . . .	—	—	—	—	9	19	—	613	—	16	—	657
	1,445,807	55,818	258,023	70,837	1,311,363	339,194	1,454,843	86,448	881,526	919,057	153,274	6,976,190

* Current Accounts, £4,120,704 Deposit and other Accounts, £2,345,437.

PROVINCIAL CLEARING-HOUSE RETURNS

[000's omitted]

Date	Birmingham	Bradford	Bristol	Hull	Leeds	Leicester	Liverpool	Manchester	Newcastle-on-Tyne	Nottingham	Sheffield	Southampton
	£	£	£	£	£	£	£	£	£	£	£	£
1953												
July	19,561	19.022	5,443	6,145	11,846	7,909	45,004	34,993	15,504	4,445	9,424	1,442
August	17,238	13,889	5,102	6,710	9,580	6,737	40,075	32,796	13.222	4,547	7,303	1,463
September	14.974	15,708	4,721	6,030	9,271	8,103	41,959	34,015	13,330	3,800	7,738	1,341
October	17,316	19.501	5,569	6,589	11.291	8,409	51,035	38,868	14,516	4,683	8,792	1,401
November	21,999	15,855	5,285	5,662	10,381	7,925	44,324	37,371	14,457	4,407	10,074	1,347
December	20,914	18,746	5,293	5,575	10,209	8,576	51,311	39,531	17,713	4,226	9,684	1,374
1954												
January	29,028	19,848	6,816	7,515	14,376	10,613	53,658	42,543	18,255	5,652	10,641	1,743
February	24,142	14.421	5,532	6,190	11,509	8,028	46,753	38,433	17,123	4,332	9,265	1,537
March	21,315	19,183	5.984	6.199	11 360	9,867	54,818	41,860	15,395	4.374	9,478	1,402
April	19.041	18,778	5,313	5,510	10,457	8.180	47,677	38,048	14,045	4,214	9,434	1,367
May	25,586	18,813	5.961	6.577	11.998	8,641	56,518	43,367	16,039	4,673	10,411	1,518
June	19,491	16,917	5,310	5.701	10,872	8,340	48,127	36,066	13,529	4,201	9,460	1,458
July	26,166	18,905	5,609	6,157	12,263	9,382	56,181	40,545	15,970	4,997	10,862	1,601

YEARLY PROVINCIAL CLEARING-HOUSE RETURNS

[000's omitted]

Date	Birmingham	Bradford	Bristol	Hull	Leeds	Leicester	Liverpool	*Manchester	Newcastle-on-Tyne	†Nottingham	‡Sheffield	Southampton
1942	128.228	106.344	101,364	38,787	57,197	43,611	239,347	621,956	75,702	24,062	43,603	5,891
1943	108,783	197,143	33,390	29,518	57,327	41,392	235,639	415,508	79,768	22,353	47,081	6,637
1944	90,201	94,055	34,139	30,403	59,912	41,451	264,679	170,732	88,596	21,004	47,861	8,310
1945	93,355	99,623	35,653	39.255	64,149	46,034	287,332	186,828	95,648	24,219	47,627	9,969
1946	156.640	114,317	37,332	49.889	76,955	57,819	331,808	225,032	111,429	30,357	56,007	10,832
1947	169.375	115,669	41,898	58,731	86,305	68,139	338,747	299,739	115,902	34,750	70,971	12,871
1948	181.814	143,480	42,129	65,318	103,883	73,284	488,353	379,963	126,786	38,411	80,633	13,301
1949	174,224	163,140	42,670	65,141	115.195	81,320	574,464	401,522	134,305	40,083	80,240	13,280
1950	190,365	219,707	44,917	67,074	119,829	86,665	634,248	439,788	132,766	43,736	83,444	13,745
1951	223,924	240.585	59.430	76,999	129.539	96,431	644,373	507,883	143,542	49,151	95,872	16,408
1952	226,701	175,907	63.248	76,104	124.499	91,371	544,082	417,029	165,857	50,704	100,674	16,855
1953	230,589	210,190	64,051	76,314	129,927	96.141	537,462	436,534	181,809	53,504	106,535	17,043

* Area extended from July 1, 1947. † Area extended from May 5, 1947. ‡ Area extended from June 9, 1947.

LONDON BANKERS' CLEARING-HOUSE RETURNS

Month	Town Clearing	General Clearing	Total for the Month
1952	£	£	£
July	7,498,000,000	2,395,000,000	9,893,000,000
August	6,192,000,000	2,141,000,000	8,334,000,000
September	6,799,000,000	2,176,000,000	8,975,000,000
October	7,438,000,000	2,459,000,000	9,897,000,000
November	6,471,000,000	2,338,000,000	8,809,000,000
December	6,797,000,000	2,357,000,000	9,154,000,000
1953			
January	8,745,000,000	2,671,000,000	11,416,000,000
February	6,938,000,000	2,243,000,000	9,181,000,000
March	7,783,000,000	2,436,000,000	10,219,000,000
April	7,579,000,000	2,342,000,000	9,921,000,000
May	6,851,000,000	2,480,000,000	9,330,000,000
June	7,425,000,000	2,323,000,000	9,747,000,000
July	8,709,000,000	2,572,000,000	11,281,000,000
August	6,465,000,000	2,176,000,000	8,641,000,000
September	8,445,000,000	2,401,000,000	10,846,000,000
October	9,459,000,000	2,649,000,000	12,108,000,000
November	7,641,000,000	2,384,000,000	10,026,000,000
December	8,030,000,000	2,627,000,000	10,657,000,000
1954			
January	9,554,000,000	2,734,000,000	12,288,000,000
February	7,437,000,000	2,351,000,000	9,788,000,000
March	9,639,000,000	2,638,000,000	12,277,000,000
April	8,583,000,000	2,483,000,000	11,066,000,000
May	9,675,000,000	2,601,000,000	12,276,000,000
June	10,918,000,000	2,592,000,000	13,510,000,000
July	11,549,000,000	2,806,000,000	14,354,000,000

SCOTTISH CIRCULATION RETURNS

AVERAGE CIRCULATION AND COIN HELD DURING THE FOUR WEEKS ENDED SATURDAY, JUNE 26, 1954

Name of Bank	Authorised Circulation	Average Circulation during Four Weeks ended as above			Average Amount of Bank of England Notes and Coin held during Four Weeks ended as above
		£5 and upwards	Under £5	Totals	
	£	£	£	£	£
1 Bank of Scotland	396,852	8,231,749	5,072,436	13,304,185	13,745,292
2 Royal Bank of Scotland	216,451	6,926,852	6,030,043	12,956,895	13,680,608
3 British Linen Bank	438,024	6,590,517	4,362,972	10,953,489	11,323,916
4 Commercial Bank of Scotland	374,880	10,785,409	6,386,669	17,172,078	18,250,049
5 National Bank of Scotland	297,024	6,907,737	4,429,521	11,337,258	12,097,042
6 Union Bank of Scotland	454,346	5,407,344	4,115,517	9,522,861	9,881,219
7 Clydesdale and North of Scotland Bank	498,773	14,972,710	6,082,831	21,055,541	22,186,450
Totals	**2,676,350**	**59,822,318**	**36,479,989**	**96,302,307**	**101,164,576**

Each of the Bankers named in the above Return, who have in Circulation an amount of notes beyond that authorised in their Certificate, have held an amount of Bank of England Notes and Gold and Coin other than Gold Coin not less than that which they are required to hold during the period to which this Return relates.

September, 1954

IRISH CIRCULATION RETURNS

NORTHERN IRELAND

Average Circulation and Coin held during the Four Weeks ended Saturday, June 26, 1954

Name of Bank	Authorised Circulation	Average Circulation during Four Weeks ended as above: £5 and upwards	Under £5	Totals	*Average Amount of Bank of England Notes and Coin held during Four Weeks ended as above
	£	£	£	£	£
1 Bank of Ireland	†705,887	1,571,954	260,675	1,832,629	1,218,265
2 Provincial Bank of Ireland	†274,685	1,248,382	207,070	1,455,452	1,374,243
3 Belfast Banking Company	350,000	1,084,358	71,825	1,156,183	1,983,804
4 Northern Bank	244,000	1,491,248	78,755	1,570,003	1,906,615
5 Ulster Bank	290,000	1,496,377	95,881	1,592,258	1,824,998
6 National Bank	120,000	581,368	30,578	611,946	509,911
Totals	**1,984,572**	**7,473,687**	**744,784**	**8,218,471**	**8,817,836**

Each of the Bankers named in the above Return, who have in circulation an amount of Notes beyond that authorised by the Bankers (Northern Ireland) Act, 1928, have held an amount of Bank of England Notes and Gold Coin and Coin other than Gold Coin not less than that which they are required by the Treasury to hold during the period to which this return relates.

† These amounts are the latest amounts approved by the Treasury.
* This column includes Bank of England Notes deposited at the Bank of England which, by virtue of Sec. 9 (1) of the Currency and Bank Notes Act, 1928, are to be treated as gold coin held by the Bank.

Legal Tender Note Fund as at June 26, 1954

Issue Account

	£	s.	d.		£	s.	d.
Outstanding as at end of previous week	67,006,243	0	0	Redeemed during week ended June 26, 1954	1,114,997	0	0
Issued during week ended June 26, 1954	757,494	0	0	Outstanding as at June 26, 1954	66,648,740	0	0
	£67,763,737	**0**	**0**		**£67,763,737**	**0**	**0**

FOREIGN BANK RETURNS

BANK OF FRANCE

Francs (000,000's omitted)

Date	Gold	Private Discounts and Advances	Advances to State: In Occupation Costs	Treasury Advances	Fixed Advances	Special Advances	Notes	Deposits
July 15	201,282	1,281,070	426,000	195,000	53,849	163,200	2,368,668	113,460
„ 22	201,282	1,258,584	426,000	195,000	53,849	161,300	2,338,051	118,622
„ 29	201,282	1,292,032	426,000	195,000	53,849	172,600	2,386,357	132,621
Aug. 5	201,282	1,309,190	426,000	195,000	53,849	170,000	2,396,532	121,416
„ 12	201,282	1,292,625	426,000	195,000	53,849	178,600	2,365,762	129,027
1953								
Aug. 13	200,187	1,237,994	426,000	200,000	53,982	196,500	2,180,495	211,208

FOREIGN BANK RETURNS—(*continued*)

U.S. FEDERAL RESERVE BANKS

Dollars (000,000's omitted)

Date	Total Gold Reserves	Total Cash Reserves	Total U.S. Govt. Securities	Total Bills and Advances	Total Reserves
July 14	21,242	362	24,902	24,986	51,128
,, 21	21,245	557	24,714	24,809	50,635
,, 28	21,220	525	24,517	24,738	50,108
August 4	21,218	502	24,325	24,496	49,820
1953					
August 5	21,035	337	24,964	25,527	50,668

Date	F.R. Notes in Circulation	Member Bank Reserve Deposits	Government Deposits	Total Deposits	Excess Member Bank Reserve Deposits	Reserve Ratio %
July 14	25,673	19,052	557	20,780	756	45·7
,, 21	25,574	19,141	536	20,708	797	45·9
,, 28	25,466	19,136	548	20,631	757	46·0
August 4	25,554	18,733	677	20,363	1,051	46·2
1953						
August 5	25,883	19,614	460	20,963	664	44·9

U.S. FEDERAL RESERVE BANKS AND TREASURY COMBINED

Date	Monetary Gold Stock	Treasury and Bank Currency	Money in Circulation	Treasury Cash and Deposits with F.R. Banks
July 14	21,929	4,958	29,981	1,367
,, 21	21,931	4,958	29,854	1,344
,, 28	21,907	4,959	29,776	1,360
August 4	21,908	4,959	29,893	1,485
1953				
August 5	22,227	4,858	30,139	1,736

GERMANY

Combined Return of the Bank Deutscher Länder and the Land Central Banks (in DM million)

Date	Gold	Credit Balances at Foreign Banks, Foreign Cash, Bills and Cheques	Inland Bills of Exchange	Advances and Short-Term Lendings to the Federal Government and other Public Authorities	Bank Notes in Circulation	Bank Deposits	Non-Bank Deposits *
July 15	1,837·9	8,177·3	1,871·5	142·6	10,843·7	2,670·4	6,308·8
,, 23	1,964·2	8,104·4	1,788·0	171·4	10,518·6	3,088·0	6,346·5
,, 31	2,006·3	8,177·1	1,737·0	168·8	11,732·0	2,632·2	5,555·9
Aug. 7	2,048·4	8,211·0	1,678·2	175·2	11,138·8	3,379·0	5,367·2
,, 14	2,132·7	8,186·3	1,632·7	179·9	10,861·8	2,931·0	6,097·9
1953							
Aug. 15	987·7	5,926·7	1,580·9	181·7	10,301·1	2,335·1	—

* These figures include purchases of Equalisation Claims by Public Authorities.

INSURANCE AND ACTUARIAL RECORD

Yorkshire Insurance Company

AN excellent set of accounts is submitted by the *Yorkshire Insurance Company* in respect of 1953. In his review at the annual general meeting, the Rt. Hon. Lord Middleton, M.C., the chairman, said: " The year 1953 was a good one for us; we are able to report a record achievement in several departments. Never have we had so large a net life, fire or accident income. Never have all our funds—life, fire, accident or marine—stood higher. And most important of all—for stability must keep pace with progress—never have our reserves been stronger than to-day."

In the life department, 7,419 policies of life assurance were issued for net sums assured of £16,351,202, compared with 6,648 policies assuring £16,381,416 in 1953 and 6,149 policies for sums assured of £14,787,686 in 1951. The new business for the year produced a new annual life premium income of £578,851, and the total life premiums were advanced to £3,138,997. Annuity considerations brought in £1,016,970, and net interest income was higher by £115,019 at £1,010,166. The gross rate of interest earned on the fund, excluding reversions, worked out at £4 10*s*. 5*d*. per cent., against £4 9*s*. 1*d*. per cent. in 1952 and £4 6*s*. 6*d*. per cent. in 1951. Income for the year in the life account exceeded outgo by £2,951,491 to which extent the life fund was advanced to £27,369,064.

Premiums in the sinking fund and capital redemption account were £27,941, consideration for annuities-certain, £118,964, and net interest income brought in £77,298. The fund at the year-end was £3,082,244.

The fire account reflected the general market experience in a slowing-down of the rapid growth in income which has been a feature in recent years. Fire premiums of £4,169,185 compared with £4,084,513 and £3,577,169 in the two preceding years. Notwithstanding fire wastage in the United Kingdom on an unprecedented scale, heavy damage resulting from the East Coast floods, and devastation by fire and windstorm at a record level in the United States, the loss ratio over the whole account was under 46 per cent. The account showed an underwriting profit of £450,471, of which £431,499 was taken to profit and loss. The fire fund, at £2,671,386, was equivalent to 64·1 per cent. of the premium income.

Premiums in the accident account were higher by £859,743 at £7,392,864. The underwriting experience in connection with motor insurance, which forms a very substantial part of the accident account, was unfavourable in the United States and elsewhere, but other classes of business included in the accident and general account produced a reasonable margin of profit. After allocating 5·1 per cent. of the increased premium income to unexpired risks reserve, there remained an underwriting surplus of £160,884, of which £157,232 was transferred to profit and loss. The fund, at £3,150,670, represents 42·6 per cent. of the premium revenue.

Marine income was £1,943,810, against £2,034,090 in 1952, and reflected a policy of caution and restraint under current market conditions. Nationalistic movements tending to divert insurances to foreign and less experienced markets also contributed to the reduction in premium income. The account contributed £150,000 (against £200,000 a year ago) to the year's profit total, and the fund was advanced to £3,223,289, at which figure it represented 166 per cent. of the premiums for the year, following ratios of 155·3 per cent. and 150·4 per cent. The chairman expressed his confidence that the strengthened marine fund will be more than sufficient to stand such strains as it may have to meet until sounder conditions prevail.

A comparative summary of the company's operations is set out below :—

	1953	1952	1951
	£	£	£
Fire insurance surplus	431,499	530,601	430,118
Accident and general surplus	157,232	180,792	53,419
Marine insurance surplus	150,000	200,000	250,000
	£738,731	£911,393	£733,537
Life profits	23,378	56,418	16,520
Profit of National Safe Deposit and Trustee Co. Ltd.	8,317	10,985	9,005
Revenue from trustee department	6,256	4,942	6,165
	£776,682	£983,738	£765,227
Expenses charges to profit and loss account	72,050	61,505	54,938
Overseas taxes	296,866	340,633	311,233
United Kingdom taxes	287,059	439,910	220,142
Trading Profit	£120,707	£141,690	£178,914
Final proportion of profits of newly acquired subsidiary—applicable to vendors	2,703	19,378	—
Net trading profit	£118,004	£122,312	£178,914
Net interest earnings	278,993	241,624	199,841
Available for distribution	£396,997	£363,936	£378,755

The following table shows the disposal of the surplus available for distribution :—

	1953	1952	1951
	£	£	£
Staff pension fund	75,000	100,000	85,000
Transferred to investment reserve	125,000	100,000	100,000
Transferred to fire insurance account	50,000	100,000	50,000
Transferred to accident account	—	25,000	25,000
Transferred to marine account (subsidiary company)	10,000	—	—
Dividend	132,003	124,895	96,304
Added to carry-forward	4,994	85,959	22,451
Dividend, *less* tax, per £1 paid-up capital	16*s.*	16*s.*	12*s.* 6*d.*

Consolidated assets total £49,084,641 against £46,506,593 a year earlier, and include British Government securities at £13,519,908 (against £12,365,927) and other investments at £13,613,168 (against £13,012,333). Mortgages are shown at £6,927,700 (against £7,040,539), and property including office premises at £3,436,530 (against £3,459,712). There is a cash item of £2,723,218 (against £2,501,803). The paid-up capital is £300,000, and the funds include a general reserve (capital and revenue) of £1,702,871 (against £1,700,139). It is certified that the balance sheet assets are, in the aggregate, in excess of the value stated.

—

September, 1954

Norwich Union Insurance Societies

WITH an increase of £5,865,214, new life sums assured written by the *Norwich Union Life Insurance Society* last year were taken well over the £50 million mark to £53,248,524. In addition, pension scheme deferred annuities were granted for a capital value of £29 million, which exceeded the 1952 figure by over £17 million. The satisfactory results of the first two years of the current quinquennium is evidenced by an increase of 3*s*. per cent. per annum in the rates of interim bonus payable on all full-profit policies becoming claims by death or maturity on or after January 1 last.

During the year the society had over £14 million to invest, and Sir Robert Bignold, the President, told members that in the selection of investments, as in all their work, the directors regard themselves as trustees for the society's policyholders at home and overseas. The consideration of the suitability of an investment therefore rests in the first place on whether or not it is in the interest of the policyholders as a whole. At the same time national interests are kept in mind, and, provided suitable forms of investment are available, it is considered in the best interests of the policyholders to select those investments which serve to assist the economy of the countries in which the society operates. By way of example, the president mentioned £45 million loaned by the society since 1945 to individuals in various countries for the purchase of their own homes. Re-equipment and extension of plant for British industry involve capital costs far beyond anything that could have been foreseen a few years ago. With the reduced amounts coming forward from individuals under the present weight of taxation, a special responsibility is laid on the financial institutions such as the *Norwich Union Life* to make their funds available on appropriate terms for these all-important tasks. The society's interest in debentures, preference and ordinary stocks rose last year by £2,230,390 to £10,070,701, at which figure it represented 30·8 per cent. of the total Stock Exchange investments.

Total premiums and considerations in 1953 amounted to £16,221,289, against £13,451,616 in 1952, and interest income, after deduction of tax, was higher by £368,834 at £3,568,190. The average gross rate of interest earned was £4 11*s*. 10*d*. per cent., compared with £4 11*s*. 3*d*. per cent. in 1952 and £4 8*s*. 4*d*. in 1951, the corresponding net rate being £4 0*s*. 9*d*. per cent., following £4 0*s*. 4*d*. per cent. and £3 17*s*. 8*d*. per cent. in the two preceding years. Total outgo was £10,068,444, against £9,265,421 in the previous year, and the funds total rose in the year from £94,470,514 to £104,567,553.

Balance sheet assets of £107,293,204 show an increase of £10,259,667. Mortgages and loans appear at £51,222,189 (against £48,509,564 a year ago). British Government securities at £15,491,780 (against £11,520,078), and other Stock Exchange securities, £17,159,256 (against £14,354,699). Real estate and house property represent a total of £13,732,815 (against £13,178,174) and shares in the society's subsidiary company—*Norwich Union Fire Insurance Society*—are shown at £6,088,174, as valued at date of acquisition.

Total premiums of the *Norwich Union Fire Insurance Society* in 1953 were higher by £75,840 at £14,634,800, being £6,450,300 (against £6,604,715 in 1952) in the fire

department, £7,013,296 (against £6,567,811) in the accident account, and marine premiums of £1,171,204 (against £1,386,434). In the fire and accident accounts the combined underwriting profit was £1,293,857 (against £928,051), of which amount £1,171,886 (against £921,558) was taken to profit and loss. The combined trading reserves of these two accounts, at £6,604,431, show an increase in the year of £363,400. A reduction in marine income was in line with the general experience of insurance operators in the marine market. The president observes that the difficulties encountered in 1953 are spreading into 1954 and if they do not lessen, the society's results from marine underwriting are bound to be again affected. A transfer of £75,000 (same) is made to profit and loss, and the strength of the marine fund left unimpaired at £1,819,672, or 155·4 per cent. of the total net premiums.

Net interest income brought in £289,922 (against £242,807) making an available total of £1,536,808 (against £1,239,365), and a net profit for the year of £674,823 (against £706,505) after providing for taxation and expenses. The net dividend for the year accruing to the *Norwich Union Life* absorbed £193,600 (against £161,700) and, after sundry allocation to reserve, there remained a balance forward of £334,775 (against £328,552). Assets total £21,026,244 (against £19,452,442 a year ago).

Insurance Notes

GLOBAL INCOME OF BRITISH OFFICES

Global premium income from all classes of business transacted by British insurance companies during the past year amounted to £965 million, some £40 million more than the previous record set up in 1952. Mr. J. W. J. Levien gave these figures at the annual meeting of the British Insurance Association, and told members that this continued expansion was the more noteworthy when the acute inflationary conditions that obtained during the period of peak post-war expansion were compared with the more stable economic climate of 1953. Totals for the past two years in the main classes of insurance were :—

Net Premiums Written

	1953	1952
	£	£
Fire	210,421,000	208,094,000
Accident	288,448,000	266,766,000
Marine	60,743,000	67,539,000
Ordinary Life	279,086,000	260,745,000
Industrial Life	127,073,000	122,324,000
Total	£965,771,000	£925,468,000

Almost half of the total premium income in 1953 was derived from overseas markets, and Mr. Levien said this is encouraging evidence of the continued goodwill which British insurance companies enjoy abroad.

BUSINESS OF LLOYD'S UNDERWRITERS

SINCE 1949 Lloyd's underwriters have, through the Committee of Lloyd's, deposited returns with the Board of Trade showing the aggregate business written in the different types of insurance. The accounts are drawn up in accordance with the forms prescribed in Statutory Instruments 1950 No. 533, and presented on a three-year basis, the account for each particular year being kept open until the end of the third year, and then closed by making provision for outstanding liabilities. The chief interest in the accounts now submitted centres therefore on the underwriting year 1951.

For the purpose of compiling the statements all foreign currency premiums and claims (excluding those received and paid in the United States and Canadian dollars) are converted into sterling at the prevailing rates of exchange. In the case of premiums received and claims paid in the U.S. during the past three years, an exchange rate of 2·80 dollars to the £ has been adopted. In the case of Canadian dollars the rates adopted were 2·83 to the £ for the 1951 account; 2·72 for the 1952 account; and 2·74 for 1953 account.

The 1951 account, now closed, reveals premiums of £195,624,592 (against £178,290,992 for the 1950 account closed a year ago). The total consisted of £95,741,335 (against £84,250,220) in respect of marine, aviation and transit business, £94,110,434 (against £89,022,662) in respect of miscellaneous non-marine business, and motor insurance premiums of £5,772,823 (against £5,018,110). Net interest on the underwriting funds and other credits brought into the 1951 account totalled £2,442,271, making a total income for the 1951 account of £198,066,863. A profit balance of £18,399,598, or 9·4 per cent. of the premiums, was earned on the 1951 account, compared with £13,087,990, or just over 7 per cent. of the premiums on the 1950 account.

The combined first-year premiums on the 1953 account were £147,306,556, compared with £146,833,701 and £128,044,584 in the two preceding years. In addition, a small amount of short-term life assurance was transacted, premiums in respect of which amounted to £10,683 in 1953.

The 1952 and 1953 accounts will not be closed until the end of 1954 and 1955 respectively.

FRIENDLY SOCIETY FUNDS

THE general section of the annual report of the Chief Registrar of Friendly Societies—the first to have been published since 1937—shows the combined savings of members to have increased in the period 1937–1952 inclusive from £1,658 million to over £3,448 million, and membership to have advanced from under 125 million to over 155 millions. On the other hand, the total number of societies has dropped from 30,316 to 24,826. The group includes friendly societies, industrial assurance companies, building societies, industrial and provident societies, trade unions, loan societies, railway savings banks, superannuation and other trust funds. The report points out that a considerable amount of duplication in the figures for membership and funds is unavoidable, since the same person may be a member of a friendly society, a co-operative society, and a trade union, a shareholder

in a building society and the holder of one or more policies in an industrial assurance office. Adjustments have been made so far as practicable in compiling the figures of funds to eliminate duplication due to inter-investment and other causes.

A feature of the report is the growth shown in the number and size of superannuation funds. In 1937 there were 281 funds on the register, with employers' contributions totalling £2·7 million and employees paying £1·8 million. By 1952 the number of funds had advanced to 438, at a cost to employers of £13 million and to employees, £7 million. Total pension funds at the end of 1952 amounted to £257 million, compared with £75·8 million in 1937.

Trade union funds rose in the period from £18·5 million to roughly £65·5 million. The number of trade unions fell in the 15-year period from 528 to 506, but membership increased from 4·7 million to 8·5 million.

Membership of building societies showed a steady rise from 2 million to 2·5 million, and, despite a fall in the number of societies from 977 to 796, total funds increased sharply from £698·8 million to £1,452·4 million.

The only decrease shown in the report is in the funds of certified loan societies.

AUSTRALIAN DEMAND FOR CREDIT INSURANCE

A RECENT meeting of N.S.W. exporters asked the Federal Department of Commerce and Agriculture to draft an insurance scheme to cover credit and political risks in overseas trade. It was pointed out that similar guarantee schemes operated in other countries, including Britain and Canada. It is understood that Government departments are now negotiating in drawing up a scheme.

SIX MONTHS' FIRE DAMAGE

THE considerable improvement in fire damage figures for the United Kingdom and Eire which took place in April and May of this year was not held throughout June, the total for that month being £2,020,000 compared with £1,453,000 and £1,326,000 in the two preceding months. The June figure includes two major outbreaks—one at a textile warehouse in Manchester, estimated at £200,000, and another at transit sheds and fruit stores in Dublin, estimated at £110,000.

The total wastage by fire during the first half of 1954 is estimated at £12,889,000, compared with £11,963,000 for the corresponding period of 1953. As pointed out in *The Times*, this steady climb in the figure for total fire damage is in spite of a levelling off of values generally over the past 12 months and also, in some trades at any rate, of a reduction of stocks. It is certainly true that the scale of fire damage is heavier than it should be, and it has to be remembered that these estimates are of direct damage only; the estimates of consequential or indirect losses, which often inflate considerably the final cost, will not be known for some time.

LIFE ASSURANCE FEATURES

Legal and General With-Profit Rates. Now that the society has re-entered the field of normal with-profit life business, new leaflets are made available setting out the benefits which policyholders in the new class might reasonably expect to receive. Examples are given showing sums assured at maturity assuming the allotment of a compound reversionary bonus at the rate of 37*s.* 6*d.* per cent. per annum.

The Life Assurance prospectus, which has been re-issued to include the new with-profit policies, sets out under convenient headings the information which the prospective policyholder is likely to seek in his initial enquiries. Below are specimens of the new with-profit rates :—

Whole Life Assurance

Annual premium to secure £100 at death

Age not exceeding	Payments throughout life £ s. d.	Payments ceasing at age 65 £ s. d.	Payments ceasing at age 60 £ s. d.
20	2 0 11	2 5 3	2 7 10
25	2 5 1	2 10 11	2 14 6
30	2 10 1	2 18 1	3 3 4
35	2 16 3	3 7 8	3 15 7
40	3 4 0	4 0 11	4 13 10
50	4 9 10	6 17 3	9 9 0

Endowment Assurance

Annual premium to secure £100 at end of selected term, or at previous death

Age not exceeding	10-year term £ s. d.	15-year term £ s. d.	20-year term £ s. d.	25-year term £ s. d.
20	10 15 9	7 3 7	5 5 8	4 5 2
25	10 15 10	7 3 10	5 5 11	4 5 7
30	10 16 0	7 4 1	5 6 5	4 6 3
35	10 16 5	7 4 10	5 7 4	4 7 6
40	10 17 3	7 5 11	5 8 11	4 9 8
50	11 1 0	7 11 4	5 10 0	5 1 7

A leaflet entitled " Exit a Key Man " is issued by the *Prudential* and sets out the main advantages to an employer of providing for the retirement of a valued employee by means of a personal pension policy. In the example it is suggested that in respect of a man earning £700 a year, the employer should put aside £50 a year. This is shown to provide £1,389 for the purchase of an annuity at age 65, this annuity being guaranteed at not less than £119 18*s.* 4*d.* Alternatively up to 25 per cent. of the proceeds could be taken as a lump sum and the amount of the annuity correspondingly reduced.

The *Phoenix Assurance Company* announces an interesting prospectus entitled " Personal Retirement Pension for Men." This company's scheme has been designed to assist people who have to make their own provision for a pension on retirement and has particular appeal to those in business on their own account, to partners, and to controlling directors, who cannot under present legislation receive the advantages of a pension arrangement such as is available to employees. Immediate life assurance benefit is included so that provision is made for dependants in the event of death before the pension age, and the premiums are eligible for relief of income tax. For a male life aged 35 next

birthday an annual premium of £98 6*s.* 10*d.* would provide from age 65 a pension of £250 per annum tax-free and guaranteed for 15 years certain, followed by £250 per annum subject to tax for remainder of life. Alternatively, a cash sum of £3,661 can be taken at age 65. Quotations in respect of female lives are not included in the prospectus, but will be given on request.

DAMAGES AGAINST HOSPITALS

COMPENSATION payments of all kinds made in England and Wales by National Health Service hospital authorities amounted to £7,560 from inception of the scheme to March 31, 1949, but for the four following years payments were £23,636, £38,556, £106,574 and £152,590. These payments resulted largely from claims for damages for neglect or inefficient treatment. Giving these figures in the House of Commons, the Minister of Health repudiated any suggestion that the figures were evidence " that under State control the health services break down when people are relieved of personal responsibility. The figures are rather an indication of a changed attitude on the part of hospital patients, the fact being that each successive award of damages encourages other people to imagine that thousands of pounds are awarded for comparatively trifling disabilities. It has been questioned in insurance circles whether the law governing the responsibility of medical authorities, as defined in Court decisions over recent years, is developing in a manner conducive to the public interest. It will certainly be a bad day for all and sundry when a surgeon refuses to take a chance in a desperate case for fear of a damaging legal action should he be unsuccessful.

" ATOMIC " INSURANCES

THE *Post Magazine and Insurance Monitor* draws attention to some of the problems which the insurance industry will have to ponder and resolve as a result of the advent of the atomic age, and quotes a statement made by the general manager of the *General Electric Company* in the United States to the effect that industry was " unable to obtain adequate atomic risk insurance." Before the Joint Congressional Committee of Atomic Emergy he said it is entirely possible for damage to exceed the corporate assets of any given contractor or insurance company, and that for the time being at least his company would continue to be unable to obtain private protection from any source either in the United States or abroad, and that the inability of private business to insure against atomic risks will provide a very serious obstacle to substantial private development of atomic energy. It would appear he had principally in mind the liabilities which producers or users of atomic energy materials, such as radio-active isotopes, may incur to third parties. He said that no matter how careful any one in the atomic energy business may try to be, it is possible that accidents may occur for which that person will be deemed legally at fault, with resultant liability imposed on him. Indicating that a catastrophe hazard must be visualised, he advocated that the Government should make some provision beyond the extent that the insurance industry can, and will afford protection to safeguard both industry and innocent people against the kind of catastrophe which he hoped would never come. The *Spectator*, an American insurance journal, sought the opinions of a number of insurance company executives upon this problem, and found opinion fairly evenly divided between on the

one hand the insurance industry facing the problems in reliance upon its own resources, and on the other seeking some form of excess reinsurance protection from the Government. It is the hazard of contamination by radio-active substances which appears to have caused most concern. Such contamination, if extensive can, apart from causing injury to health and death itself, put a factory out of operation for a long time, and decontamination may prove a difficult and costly process.

LIFE ASSURANCE AND ATOMIC RESEARCH

SCIENTISTS and others engaged in atomic research desirous of assuring their lives are faced with the prospect of a higher premium charge as a result of their occupation. The extra imposed may be upwards of, say, 10*s.* per cent., and chargeable for a period of from five to ten years, according to the class and term of policy required. It is understood, however, that individuals so employed can apply to the Ministry of Supply to be re-imbursed for the additional premiums they have paid. Such arrangements for the refundment of additional premiums have operated with effect from June 1, 1949.

ALLIANCE ASSURANCE CAPITAL SCHEME

A CAPITAL reconstruction scheme, involving the capitalisation of £4¾ million from reserves, is announced by the *Alliance Assurance Company.* The existing £1 million capital consists of 250,000 "original" shares of £20 each, £2 4*s.* paid-up, and 450,000 "new" shares of £1 each, fully paid. Both classes carry the same rights on dividends, participation in assets and voting. While holders of the "original" shares, therefore, have a heavy contingent liability in respect of unpaid capital, a call-up would not increase their proportionate interest in the equity. It is proposed to pay up this contingent liability; to increase the resulting fully paid capital of £5,450,000 to £5,750,000; and to redistribute the revised capital so that the "original" shareholders will have eight £1 fully paid shares for each "original" £20 share, £2 4*s.* paid, and the "new" shareholders will have 8⅓ shares for each present £1 fully paid "new" share. Some compensation is considered due to holders of the "new" shares in recognition of the more favourable position of their fully paid shares as reflected in the stock market price. The consent of the Capital Issues Committee has been obtained to the issue of the necessary shares, and it is intended to convene the necessary meetings for approval in October next.

No material increase in the amount to be distributed by way of dividend is at present contemplated. The intention is to declare an interim dividend, payable in January, of 12*s.* per share on the existing capital, against 10*s.* a share last January, and a final dividend, payable in July, 1955, of 1*s.* 6*d.* a share on the revised capital, against 14*s.* on the old capital last July.

Apart from creating a balance between the rights of the two classes of shareholders, the proposed scheme will bring the capital, which has not changed since 1905, more into line with the great increase in the company's resources, and the very considerable expansion of its activities.

The announcement caused a sharp rise in the company's shares; the "original" £20 shares, £2 4*s.* paid, rose by £4 to £36, while the "new" £1 fully paid shares rose by £3½ to £36¼.

Other insurance companies who have recently carried through capital schemes include the *Atlas Assurance*, *Employers' Liability*, *General Accident*, and *Royal Exchange*.

INSURANCE SHARE ANNUAL

THE 1954 edition of *Savory's Insurance Share Annual* gives its customary review of the industry as a whole, and comparative figures over the past 10 years in respect of some thirty representative companies. Influenced by an all-round increase in interest earnings, by good underwriting results, increases in dividends, capitalisation of reserves, and by splitting of shares, as well as by cheaper money, the market in insurance shares has been strong, and there has been a general rise in values. Despite increased dividend payments by the majority of companies in 1952, there were many dividend increases for 1953, roughly two of every three companies included in the Annual making higher distributions. The Annual includes a 10-year record of price movements of life assurance shares, while insurance debentures and insurance preference shares are the subject of a special table.

Insurance Appointments, etc.

ALLIANCE ASSURANCE COMPANY.—The Rt. Hon. Oliver Lyttelton, D.S.O., M.C., M.P. and Mr. Gavin Astor have been appointed directors. Major The Hon. Sherman Stoner has been appointed a member of the Strand branch local board. It is also announced that Major Norman Everett, J.P., a member of the Ipswich branch local board, died on June 16.

BRITISH LAW INSURANCE COMPANY.—Mr. J. K. Lawson, LL.B., has been appointed to the seat on the Brighton and South Coast local board.

LONDON & LANCASHIRE INSURANCE COMPANY.—Sir Dudley McCorkell, M.B.E., D.L., J.P., has been elected chairman of the Belfast local board. Mr. W. Craig Gardiner, F.C.A., has been appointed a local director.

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Convertibility Problems

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THE path of virtue does not always run smooth. In many respects the present situation is propitious for a restoration of the convertibility of sterling. The British external balance has been favourable; the world balance against the dollar area has been favourable, even if we exclude economic "aid" and the provision by the United States of military end items; it has depended, it is true, on overseas expenditures by the U.S. and offshore procurements, but the flow of these has seemed likely to continue unabated for at least another two or three years; few think that the American authorities will allow their economy to run into a steep recession at a time when the high level of domestic defence expenditure makes it comparatively easy to prevent one; the modest recession that recently occurred has not had calamitous effects on the non-dollar world. By the re-establishment of commodity markets the British have taken steps to make sterling convertible for some purposes without untoward results; sterling has been strong in free markets.

As against all this the French vote on E.D.C. has been a set-back. Until new arrangements are made that are commonly deemed to fill the gap adequately, there will be uncertainty about the continued flow of U.S. defence expenditures overseas; any diversion from Europe, where the central core of the dollar problem is located, would be awkward. We may hope that matters will be patched up in a way favourable to Europe. But there will be a period in which uncertainties are too great to allow of a major move like the restoration of sterling convertibility to be undertaken. A General

Election also casts before it, for a certain distance, a shadow of uncertainty. I am confident that if a Labour victory occurred at a time when convertibility was already an established fact, the new Government would do its best to support the policy, seeing, as it would, how much depended, for the Commonwealth and for the British standard of living, on its success. But it might be politically impossible for Labour leaders to give such an undertaking in advance, and, failing a decisive statement by them, the world would remain uncertain. In the period immediately following the restoration, the boat is bound to be heavily rocked. That will have been foreseen and prepared for. But it would not do to have a season of Election campaigning, with its exaggerated and often irresponsible statements, fall within that period. Thus there is a very nice problem of timing.

Amid those short-period perplexities it is always salutary to remind ourselves of basic issues and to clear our minds about the objectives and mode of operation of the system that we envisage when we use the word " convertibility." All the more so, if fundamental thinking still needs to be done. The problem of convertibility is not simply that of attaining conditions that will make a return to it possible, but of developing in new circumstances and with new objectives a system of managing our monetary affairs that shall be relatively stable, relieve us of recurrent crises, carry its own criteria for guiding day-to-day policy and be, so far as is possible in the world of to-day, permanent. And if we are anxious to move over from our existing system to a convertible system, that is largely because we know that our existing system, which at times appears to be jogging along sufficiently comfortably, cannot be permanent. If a widespread scepticism developed about our resolve finally to return to convertibility, the existing system would begin to deteriorate.

The old system of convertible sterling had its heyday before 1914, but operated also between 1925 and 1931. Although sterling was the foremost currency in international dealings and was in truth a world currency, we maintained its convertibility on the basis of a very narrow, one might almost say microscopic, gold reserve. This was a conscious and deliberate traditional policy. But we had a secondary reserve of large dimensions consisting in the volume of our short-term overseas loans on London bills, which could be rapidly reduced by a rise of the Bank rate. Any temporary imbalance in our external payments could be rectified with great speed and efficiency. This was excellent.

But the establishment of high interest rates might have a depressing effect on business at home, causing serious unemployment; it was on this feature of the gold standard that Keynes made his classic attack. There are those nowadays who doubt if monetary stringency has as strong an effect on activity and employment as used to be supposed, and these might question whether the raising of the Bank rate together with all its financial consequences were really responsible for the bouts of depressed activity and unemployment that used to occur. Even if that is correct, it can still be held as an indictment against the old system that it contained no corrective against the generation of massive unemployment through a decline of foreign trade activity. The first impact of a shrinkage in overseas markets would be looked after by the reduction of lending abroad (via the higher Bank rate); then the country would swing into a condition of depression to match the depression occurring overseas; the consequent reduction in its

need for raw materials and in the availability of incomes for spending would reduce imports in line with the fall of exports, and a rough balance of external payments would thus be achieved automatically.

In cannot be too much stressed that, convertibility or no convertibility, there is now no question of a return to such a system. All parties envisage that in the event of a depression developing overseas, whether originating in the United States or elsewhere, we should apply correctives to sustain employment here; our activity would not be allowed to swing down to match what was proceeding abroad; still less would active deflationary measures be employed. It is true that there is still occasionally to be heard in certain circles talk of the " old medicine "; those are mere idle words; responsible persons know that; any attempt to apply the " old medicine " to-day would be the surest recipe for getting full-blooded socialism tomorrow. The system for securing our external balance by keeping resources idle is recognized as uneconomic, irrational and unacceptable. It must not be supposed that rejection of the " old medicine " is merely a matter of political expediency. Might it not be worth while, it is sometimes plausibly argued, to let national income run down for periods from time to time, if that were the price of getting a system that worked smoothly and automatically? That question might be worth considering seriously if the loss of income were widely diffused and evenly borne; but unfortunately those thrown out of work are particular people, many with dependent families. Such a victimization of the few is now rightly rejected by the social conscience.

Thus the system underlying, as distinct from the mere fact of, convertibility, will have to be different in certain fundamental respects from that of olden times. In the period from 1931 to 1939 we lived under a somewhat different system. Sterling was inconvertible, but marketable at a freely floating rate, which was however heavily doctored by the authorities. (Sterling was always considered at that time to be " inconvertible," but by the new-fangled jargon by which some propose that sterling should be made " convertible at a freely-floating rate " we are invited to reverse the usage of many generations and pronounce sterling to have been convertible during the classic periods of inconvertibility.) In 1931 we were driven helter-skelter off the gold standard, partly because an important section (the German) of our external reserve was immobilized; we had no thought-out system to put in its place; it did not look impossible in the autumn of 1931 that sterling might fall to a very low level. But things turned out differently; the havoc of the slump was world-wide and Britain was not in fact one of the great economies that was worst hit; this was soon appreciated and confidence in the future of sterling revived. At first hopes in Britain were pinned to the favourable effects of the depreciation of sterling on exports; but it must always be remembered that, unlike the depreciation of 1949, the depreciation of 1931 was short-lived, owing to the action of President Roosevelt in devaluing the dollar in 1933. Thus this period is not one in which we can learn much about the effects on trade of devaluation; nor is it one in which we can learn much about the rectifying effects of a freely floating rate, since in fact after 1933 the rate was held fairly steady until the menace of trouble from Hitler became immediate. What particularly characterizes that period is that we gave up the use of the Bank rate to level short-period discrepancies in our external balance of payments and instead had what was by British precedents a very large gold reserve,

mainly held by the Exchange Equalization Account and actively used. The low Bank rate and easy money conditions were required at home to stimulate employment. The period does not give a decisive lesson in favour of the view that such moderate oscillations as were allowed in the exchange rate were adequate by themselves to preserve an even or favourable external balance in varying conditions ; and reserves were larger then than they are now in relation to the annual value of current payments.

During the war things were kept going in Britain by severe restrictionism and control, some measure of bilateralism, aid in various forms, and the piling up of open obligations in the shape of sterling balances. Meanwhile the Atlantic Charter was a call to the authorities to consider the face of things to come. The Americans felt that restrictionism and bilateralism were inimical to world prosperity and thereby to peace, that multilateralism and the freeing of trade from administrative shackles should be the goals, and that some stability and order should be re-introduced into the foreign exchanges. But it was recognized that the governments of nations sorely stricken by the war would not be ready to cast down barriers quickly nor restore currency convertibility, whether owing to their grave genuine difficulties, to a faint heart, or to some perverse inclination towards administrative meddling and manœuvre. It was recognized that a move towards unshackled trade could not be encompassed without some new form of financial support. And there also on the scene was Keynes, having by now full British support and much influence on the American negotiators, setting his face against any system of convertibility that had as its corollary the need for periodic deflations.

From the discussions there emerged after much give and take the International Monetary Fund plan. In considering how this was to provide a currency system for a brave new world, it is well to consider the thought behind it, rather than the actual Articles of Agreement. Three points may be mentioned. First, there was to be a kind of super-reserve which would provide ample liquidity for all members and relieve them of the necessity for restrictionism and jiggering with exchange controls to meet temporary difficulties. Secondly there was to be the possibility of an agreed alteration in the exchange rate of a nation in which costs and prices had got hopelessly out of line with those outside. Thirdly, if a nation tended to be in a chronic disequilibrium of payments, whether on the debit or credit side, it would have to take special remedies. The debit nation would presumably—though there was some lack of clarity here—have to impose restrictions ; for the chronically credit nation the " scarce currency " clause was designed which would entitle all other nations to discriminate against it in an orderly way.

I recall attention to these principles because they represent the last attempt to devise a system which should enable currencies to function smoothly without periodic resort to deflation and severe unemployment. And if a number of countries come towards the verge of making their currencies convertible, it behoves us to consider whether it is indeed these principles that will be applied or whether there are other remedies for external imbalance, tried or untried, available for countries of convertible currency to use in place of the " old medicine ".

The International Monetary Fund is still with us. The fact that it has so far been to a large extent inactive is not by itself evidence that it is unusable for its purposes. Post-war maladjustments and difficulties have exceeded all expectations : nations have fallen victim to inflations that have made it impossible for them to play the rules of any

game, new or old, in foreign exchange policy. And in these conditions it was impossible for the International Monetary Fund to play its prescribed game either.

Many of the post-war clouds have cleared away, although there are still serious maladjustments due to the war. But it can hardly be claimed that these are of a kind to preclude the introduction of an orderly workable system for adjusting disequilibria, if one can be found. Indeed a good system should have power to rectify maladjustments. The time has come to take a long view. The urge to convertibility in various quarters is a symptom of that.

How, then, do we stand in regard to the three I.M.F principles? First it must be said frankly that the Fund cannot be regarded as a super-reserve. The British always thought that it was much too small. They may have held, and I believe that in the beginning some of its American sponsors held, that it would be better to let Congress take two bites at the cherry. After all, if the Fund had been working actively and successfully for two or three years, the Americans would not have been likely to let the whole scheme break down for lack of replenishment. The additional sum needed would, by comparison with the sums involved in Marshall Aid, have been modest. It is quite a different matter to consider replenishment for an institution which has been inactive and, by ordinary standards, lacking in success. Furthermore since the inception of the Fund all currencies, including the dollar, have undergone a great inflation, so that even had the reserve indeed been adequate for its prescribed tasks in 1945, it would be grossly inadequate now. Thus the existence of this reserve fund makes far less difference to the situation confronting us than the war-time planners hoped it would. It does not follow that we need despair.

In regard to the second principle (currency devaluation), I believe that this was not sufficiently analysed at the time and that views about it have since changed rather considerably. There are circumstances when devaluation is a proper and indeed the only available remedy, for instance if a nation's costs and prices have got quite out of line with those in the rest of the world. It is not practical politics to expect all wage- and salary-earners to allow their emoluments to be scaled down, in the hope of a corresponding fall in the cost of living. This was essentially the case against the upward revaluation of sterling in 1925. I believe that in 1945 devaluation may have been thought of as a remedy of wider application. It was believed that if a nation proved to be in chronic difficulties with its balance of payments, devaluation was a panacea. Some British had it in mind that Britain's relative recovery in the 'thirties had been due to the devaluation of sterling in 1931, forgetting that in that part of the period when recovery was marked—after 1933—sterling was not devalued relatively to the dollar, owing to Roosevelt's devaluation of the dollar.

There are conditions other than a rise of internal costs that may cause balance of payments difficulties. For instance a country that has been mainly dependent on a single export may find that world demand has declined owing to the discovery of a substitute or otherwise. Currency devaluation cannot then be regarded as a sure remedy for its external problem. Or a war, by temporarily cutting off certain channels of trade, may cause large changes in the pattern of world production and consumption that are not readily reversible. There is still what is known as a " structural " imbalance between

the dollar and non-dollar worlds, masked in the recent period by U.S. military expenditures overseas and by discriminatory restrictions on dollar imports in a number of countries. It is not likely that a change in the rate at which the dollar is exchanged for other currencies would suffice to correct this. Britain in particular maintains a number of restrictions on dollar imports. Few still believe that a change in the dollar-sterling rate would enable her to dispense with these. Some have supposed that there is some rate of exchange at which trade must balance; this is a fallacy. In certain circumstances the depreciation of its currency may so turn the terms of trade against a country as to make its balance worse rather than better. Revaluation of currencies, as allowed by the International Monetary Fund, may be advisable in carefully defined conditions. It should not be regarded as a panacea, and too much reliance may have been placed on it by the founders of the Fund.

To proceed to the third principle, the fact that a chronic debtor must in the last resort take special measures to improve its balance is a platitude. On the other hand the idea that a chronically credit country should be put in the dock was a great novelty. In regard to the possible working of the " scarce currency " clause in future, one must have two misgivings. The action of the Fund, if ever it took it, in giving members official authority to discriminate against dollar imports would be bound to cause annoyance in the United States. In the period since the war even a Fund on which the Americans had no votes would have been wise not to give this annoyance at a time when the Americans were so generously disposed to fill the dollar gap in other ways. The future is another question. There is doubt whether the Fund would adopt this measure readily, as occasion might require. According to the British intention members of the Fund were to be entitled to draw out their quotas as of right, just as an individual uses a banking overdraft facility already granted, or members of the European Payments Union have obtained credit from it without discussion to the limits allowed by its rules. If this procedure obtained at the Fund, its hand would be forced in a time of world-wide dollar scarcity, since it would in fact run short of dollars and have to declare them technically " scarce." But the Fund has adopted the different procedure of only allowing a drawing after discussion—save for " stand-by credits " to meet exceptional cases which are themselves subject to discussion. By discretion in the granting of credits the Fund has it in its power to prevent the dollar becoming " scarce " in the technical sense.

There is a more formidable difficulty. It was the British idea that on the occasion of " scarcity " all members should restrict their dollar expenditures, no doubt on some proportionate plan but having regard also to special needs. But at a late stage in the negotiations a clause crept into the " Articles of Agreement " disallowing restriction to particular members for whom dollars are not in fact in short supply. This introduces a bilateral element into the plan entirely inconsistent with the multilateral philosophy of the Fund. Some might hold that it renders this famous " scarce currency " clause almost nugatory, since the nations individually short of dollars would be bound to limit their dollar purchases in any case. (On the other hand it might be held as a saving grace that it gives official sanction to their confining their restrictions to dollar imports, as distinct from imposing general import restrictions, which would transmit the trouble in ever widening circles.) Far different was the original conception that all should join together in limiting the purchases of a scarce currency and thus sharing the burden

widely, instead of throwing it all onto those countries which happen, by the accident of the multilateral pattern of trade, to be in normal dollar deficit. Furthermore this objectionable clause is reminiscent of war-time bilateralism, with its distinction between hard and soft currencies, from which the Fund was supposed to be about to rescue the world. When all currencies are convertible, as was planned, there is no meaning in distinguishing between the countries in good supply of dollars and those lacking dollars; as viewed by any particular country the dollar is, in that case, the same as any other foreign currency. What happens when the dollar approaches the point of scarcity in those conditions is that in the various free foreign exchange markets of the world it rises to the point at which it becomes cheaper to remit gold (and at the same time becomes scarce in the Fund). In those circumstances, which particular country is in good supply of dollars and which lacks them depends on the mere accident of which has done what last in the arbitrage markets.

There is an even graver aspect of this question. A fully multilateral scarce currency clause would not only be unpopular with the Americans, but also with those countries which are normally in bilateral dollar surplus. For they would be asked to restrict dollar purchases when it was not strictly necessary for them as particular countries to do so. They could only be persuaded to do this if it was clearly presented to them as their required contribution to a general scheme, which was in other respects working smoothly. How far away we are from all that.

And so it has regretfully to be admitted that for nations contemplating a restoration of convertibility the existence of the International Monetary Fund does not make that great difference to the likely modes of working of currency relations that was intended by its founders. It may indeed be able to perform valuable service, but its existence cannot be held to justify a crucial change in the principles that should govern a nation's foreign exchange policy.

In the face of vast losses and new burdens Britain has maintained solvency since the war—not without American aid—by various methods which may be broadly classed under two heads. (I omit domestic measures to promote exports.) On the one hand she has maintained severe restrictions on imports; on the other she has created a kind of protection for her exports to certain markets by limiting the transferability of non-resident sterling and particularly by not allowing its transfer to the American account area. Both modes of self-protection have also been hurtful to her, the former obviously, since it is hurtful not to be able to acquire desired goods at the best price, the latter in more subtle ways.

A currency subject to limits on the right of transferability is in that respect inferior to one having no such limitation. This is a handicap, although, as events have shown, not a fatal one, to the building up of various forms on " invisible " export. For a highly populated country of limited natural resources, these are best of all kinds of exports, since the qualities, in the last analysis, that make the foreigner willing to pay for them are intelligence, integrity and reputation for gentlemanly conduct in business relations.

There is another even more important point. If the world ever settled down to a natural pattern of multilateral trade, and it is slowly moving in that direction, it is probable that the direct bilateral account of Britain, and even of the whole sterling area,

with the dollar area would be adverse, the deficit being met from a surplus with the third party world, whose exports to the dollar area are expected to rise in the coming decades. This implies the winning of dollars by Britain in multilateral settlement. But it may be taken as an axiom that third parties will not in the long run and as a regular practice be willing to give a convertible currency in discharge of an obligation expressed in an inconvertible currency; Britain cannot expect to exchange her sterling for dollars in multilateral settlement, unless she is regularly willing as occasion arises to give dollars for sterling. This is a simple point, but it is absolutely fundamental.

Finally it must be said that the protection to Britain's solvency that has been given by inconvertibility cannot be expected to endure for ever. It endured during the confused period of transition, and it has endured recently because there is confidence in the future of sterling; the wide use and acceptance of transferable account sterling and its high quotation in free markets have been heartening symptoms of confidence. But once grave doubt gained ground as to whether Britain intended to carry the matter further, a reversal of tendency would occur. The protection given by inconvertibility is based on the fact that a third party country, finding itself short of dollars, is willing to impose sterner restrictions on dollar imports than on sterling imports, thus giving British exporters an advantage. But there is always some restiveness, and a hope that this will not be a permanent state of affairs. If there was grave discouragement as regards the prospects of eventual convertibility, nations would be less willing to accept sterling in settlement and Britain would find herself subject to progressively greater pressure in bilateral negotiations for settlement, in whole or in part, in gold or dollars. In fine the long-run alternatives are for Britain herself to take the intiative by making sterling convertible at the appropriate time, or to have a piecemeal convertibility forced on her by others, step by step, to the accompaniment of a whittling away of the international position of sterling.

Thus it should be her aim to work clear of both of these two forms of post-war protection (import restriction and inconvertibility), as soon as the time is ripe. But there is a difference between the two processes. The reduction of her own import restrictions can proceed gradually according to circumstances, as it has already proceeded, and the movement can even be reversed if necessary, albeit, one hopes, always reluctantly; but the establishment of convertibility for non-residents would be a large once-over move, the reversal of which would be disastrous. As its consequences cannot be measured, it is evident that the decks must be cleared for it, and round about the time of its occurrence progress with the other forms of dismantlement must be cautious. Our American friends are right in arguing that the removal of restrictions and the establishment of convertibility should be regarded as complementary moves towards the multilateral ideal. But they will readily understand that if a sudden large move is to be taken along one line, a temporary halt may be necessary in progress along the other.

In regard to import restriction unhappily something more fundamental has to be said. In the earlier part of this article I have been at pains to make a number of negative propositions. It cannot be taken as axiomatic that a nation's external balance will adjust itself automatically in the face of large changes. We have seen that what I have

called " the old medicine " (deflation, or simply allowing unemployment to develop), which appears to have been sufficiently potent to adjust our external balance in the old days, is now utterly unacceptable. The hopes pinned to devaluation or freely floating rates appear to have been excessive. The creation of the International Monetary Fund has not, as its founders hoped, provided a radical remedy, although it may well be of considerable service. It is hard to escape the conclusion that, so far as our wisdom has at present taken us, reliance will still have to be placed on import restriction as the cure of last resort for an external imbalance. This is particularly true of the period, of which we have unhappily not yet reached the end, in which the pattern of world trade has not adapted itself to a post-war equilibrium.

A gold (or foreign currency) reserve should be adequate to cover sudden shocks (including that of convertibility!) and to see a country through the first stages of a longer-term maladjustment. But it is futile to suppose it possible to build up a gold reserve large enough to finance a continuing deficit on current account, such as some change in the external scene can cause. The only reserve against that is to have a margin of unnecessary imports that can be cut down. This must not be thought of as being in general a restrictive doctrine. Quite the contrary. A country should aim at having in fair weather a large amount of imports not strictly necessary. This gives it the only known reserve against bad weather.

In all international negotiations Britain should make it plain that this is the position, reserving her freedom, and should also seek the co-operation both of the sterling area and of Europe. The way is not yet clear for permanent unconditional liberalization commitments (although within the family of European countries these commitments should be hard).

But in regard to convertibility I hold that, subject to what I have written in the opening paragraphs (E.D.C. and General Election problems), we should be thinking in terms of an early restoration. It is a British interest, and of course a world interest, that sterling should be convertible. Confidence is good now and might with prolonged delays begin to decline, which would make the technical operation more perilous. We have the advantage of overseas American expenditures, which are likely to continue for some time. The great unknown is the increased dollar expenditure that would occur, if the various nations removed their remaining discriminatory restrictions on dollar imports, a process which sterling convertibility would undoubtedly have some tendency to expedite. Mr. Triffin, a high authority, has estimated that if all such discrimination were removed, the increase in world dollar expenditure would only be £725 million. (*Quarterly Review of Banca Nazionale del Lavoro*). That may be optimistic. Even if the figure were somewhat larger it would not, given the maintenance of U.S. military expenditures, cause any great pressure to obtain dollars via sterling. I do not think that the fact that the great underlying problems of international equilibrium remain unsolved should deter us. The fact does entitle us to maintain the right to use discrimination, as and when required, despite American pressure in the opposite sense. But we want convertibility on its own account and for our own sake. It would be very disappointing if we had not achieved it at the end of another quinquennium. Looking at that period as a whole, we may well judge that the circumstances are more favourable for taking the initial shock now or soon, than they may be later.

National Income and Expenditure

Real Product of the United Kingdom Economy

The *Blue Book*, 1954 which is the third in this series, contains a full analysis of the national income of the United Kingdom for the years 1946 to 1953. The new points of general interest about the British economy which emerge from the blue book are manifold: they illustrate the growth of real product during the post-war period, the claim upon this by various agents of effective demand (i.e., consumers, foreigners, entrepreneurs and public authorities), they show the input-output relationship between different sectors of the economy, the composition and distribution of personal incomes, the distribution of investment and the sources of saving for the financing of total investment.

The total output of goods produced and of services rendered in the United Kingdom at factor cost increased in real terms (that is at 1948 prices) by 4·2 per cent. between 1952 and 1953. It was this formidable productive achievement in 1953 which contributed to raising the average annual rate of growth of output over the last five years to 3 per cent., per annum. This expansion of real product enabled consumption to increase by 4¼ per cent. between 1952 and 1953, gross domestic capital formation by 18·9 per cent. and public authorities' current expenditure on goods and services by 2·7 per cent. The only other broad category, forming a constituant part of gross domestic product, namely exports decreased in real terms by 1·5 per cent. in 1953 as compared with 1952.

Personal Incomes and Saving

The rapid recovery of the British economy in 1953 from its slight set-back in 1952 is well reflected in various changes concerning personal incomes. Total personal incomes were in 1953 about 6·4 per cent. higher than in 1952. After deducting from total personal incomes a small sum of net remittances abroad, and all provisions for taxes on income as well as national insurance contributions, there remains what might be termed " disposable " personal incomes. Disposable incomes, that is incomes available for spending upon goods and services for personal consumption or for personal savings, rose by 7·2 per cent. However, personal consumption at current market prices increased by only 6·1 per cent. so that the residual of disposable incomes, namely personal savings reached in 1953 a new high level, having risen by no less than 23·2 per cent. as compared with that in 1952. The following table summarises these relationships.

(In £ million)	1952	1953	Per cent. change
1. Personal Income before Tax	12,764	13,584	+6·4
2. *Minus* Tax, insurance contributions, remittances	1,618	1,638	+1·2
3. Disposable personal income	11,146	11,946	+7·2
4. *Minus* consumers' expenditure	10,440	11,076	+6·1
5. Personal savings	706	870	+23·2

Composition and Distribution of Personal Incomes

The bulk of all personal incomes accrues to employees, that is to wage earners, salaried employees, and members of the armed forces. This category, i.e. " income

from employment," increased by 6·1 per cent. between 1952 and 1953, which includes as the largest single item the remuneration of wage earners, whose earnings rose by 6·3 per cent. The next largest component of personal incomes is "income from self-employment." It accrues to members of the professions, to farmers and to owners of unincorporated businesses. Total "income from self-employment" increased by 6 per cent., but the largest constituent item, namely, "profits of unincorporated businesses" increased by 8·8 per cent. whilst farmers' and professional incomes rose by less than 2 per cent. The third category of personal incomes consists of "income from property" in the form of rents, dividend and interest. Total property income was in 1953 about 6·9 per cent. higher than in 1952, but the item dividends and interest payments was in 1953 about 11·8 per cent. higher than in the previous year which partly reflects the increase in interest rates in 1953 as a result of monetary policy. Finally the category of "transfer payments" (which forms a part of total personal income, but not of national income), consisting of national insurance benefits, of current grants and pensions to persons from public authorities increased between 1952 and 1953 by no less than 10·2 per cent. The following table summarises the composition of personal incomes and in the last column compares the change of these incomes between 1949 and 1953.

(In £ million)	1952	1953	1953 compared with 1952	1953 compared with 1949
1. Income from employment	8,946	9,488	+ 6·1%	+ 33·9%
of which wage earnings	*5,430*	*5,770*	*+ 6·3%*	*+ 31·6%*
2. Income from self-employment	1,515	1,604	+ 6·0%	+ 15·3%
of which unincorporated business profits	*889*	*967*	*+ 8·8%*	*+ 17·1%*
3. Income from property	1,395	1,491	+ 6·9%	+ 21·7%
of which dividends and interest	*839*	*938*	*+ 11·8%*	*+ 35·0%*
4. Transfer payments	908	1,001	+ 10·2%	+ 34·5%
Personal income before tax	12,764	13,584	+ 6·4%	+ 30·1%

The sharp increase of "income from employment," of "transfer payments" and of distributed "dividends and interest" in 1953 as compared with 1949 and the general, but slower, growth of all other incomes accounts for a considerable redistribution of the number of receivers of personal incomes. During this period the number of income receivers changed slightly: There were 25·1 million income receivers in 1949 and 25·3 million in 1953. But the number of income receivers, obtaining each an income of less than £500 per annum, decreased sharply by 4 million receivers from 21·6 million in 1949 to 17·6 million in 1953, whilst the number of receivers, obtaining each an income of between £500 and £1,000 per annum, increased by 3·9 million receivers from 2·7 million in 1949 to 6·6 million in 1953.

Between 1949 and 1953 the percentage of income paid in tax fell for all groups of income receivers: the biggest fall was for the group of receivers in the £750 to £1,000 income range whose tax payments declined from 18 per cent. of income in 1949 to 10 per cent. in 1953. Moreover, there has been a considerable change since pre-war in the income groups which provide the bulk of direct tax revenue. Whereas in 1938 rather more than half the total was provided by incomes of over £3,000 a year, in both 1949 and 1953 all the incomes over £1,500 a year provided about one-half of the total direct tax revenue.

National Savings and Gross Investment

The Blue Book throws more light upon the sources of savings for the financing of gross investment during the post-war period. Apart from personal savings, accounted for above, there are available for the financing of investment two additional sources, namely undistributed corporate incomes or company profits as well as the current revenue surplusses of public authorities. The first of these two additional sources is the residual after deducting from " gross corporate profits " (which increased by 9·4 per cent. between 1952 and 1953) all " provisions for tax and dividend reserves " (which decreased by 1·1 per cent.) as well as distributions of " dividends and interest " (which increased by 11·8 per cent.). This residual as " undistributed corporate income " increased between 1952 and 1953 by 18·6 per cent. Finally, the last source of saving for the financing of investment, namely " public authorities revenue surplusses " although positive in 1953 had fallen by 22·2 per cent. as compared with 1952. The resulting total of the three main sources of saving constitutes " national savings before providing for depreciation and stock appreciation." National savings in this sense increased between 1952 and 1953 by no less than 15·5 per cent. If account is taken of capital transfers (and the depreciation of stocks in both 1952 and 1953 for the first time since 1948), total funds available for gross investment exceeded slightly national savings for these two years. The following table summarises the structure of national savings :

(In £ million)	1952	1953	Per cent. change
1. Personal savings	706	870	+23·2
2. Undistributed corporate income	1,155	1,370	+ 18·6
3. Public authorities' surplusses	436	339	−22·2
(Residual error)	(− 12)	(59)	
4. National savings before providing for depreciation and stock appreciation	2,285	2,638	+ 15·5
5. Funds available, from savings and capital transfers, for gross investment	2,371	2,759	+ 16·3

The table suggests that undistributed corporate income accounted in 1953 for over one-half of national savings, personal savings for about one-third, and public authorities' current surplusses for just under one-sixth of national savings.

Structure of Gross Investment

Total gross investment of the United Kingdom amounted in 1953 to £2,759 million at current market prices, having risen as compared with 1952 by 16·3 per cent. Of this total, foreign investment amounted to £225 having decreased by £30 million as compared with the previous year. What remained for " gross domestic capital formation " increased between 1952 and 1953 at current market prices by 16·4 per cent. or in real terms, that is at 1948 factor cost prices, by 18·9 per cent. A part of " gross domestic capital formation " is absorbed by a physical increase of stocks, which in 1953 amounted to £201 million. The other part represents " domestic fixed capital formation " which increased from £2,066 million in 1952 to £2,333 million in 1953.

About one-half of " fixed capital formation " was absorbed for buildings of all kinds : new housing, factories, offices, harbours, etc. More than one-third was investment in plant and machinery and less than one-sixth constituted investment in vehicles, ships and aircraft. In 1953 fixed investment in plant and machinery in the manufactur-

ing industries (excluding government-financed expenditure) amounted to £329 million at market prices, which was 40 per cent. of total fixed investment in plant and machinery for the economy as a whole. What is significant perhaps is that despite the increase over recent years of fixed investment in the economy as a whole, fixed investment in plant and machinery in the manufacturing industries has decreased slightly at current market prices during the last three years, though in real terms it probably has risen too. In any case, since British competitive strength must be maintained and increased, especially in manufacturing, future developments of fixed investment in manufacturing plant and machinery deserve special attention and encouragement.

WESTERN EUROPEAN ECONOMIC TRENDS

A recent publication by the Organisation for European Economic Co-operation (O.E.E.C.), entitled *Statistics of National Product and Expenditure*, 1938, 1947 *to* 1952, read in conjunction with the British *Blue Book*, 1954, reveals that the share of " gross domestic capital formation " in the " gross national product " at market prices rose in the United Kingdom from 10 per cent. in 1938 to 13·6 per cent. in 1952 ; it rose in the whole of Western Europe from 15 per cent. to just over 18 per cent. and in the United States from 11 per cent. to 18 per cent. Although the United Kingdom's rate of increase of investment compares well with that of Western Europe, it was outpaced by that in the United States. Moreover, the level of British investment relative to output was both in pre-war and post-war years lower than that of either the United States or Western Europe.

This fine O.E.E.C. publication provides—for purposes of comparing European with North American economic developments—by far the most valuable and accurate statistical survey. It shows that as early as 1948 Western Europe had, with an 8 per cent. larger population, largely regained the pre-war (1938) volume of gross national product, consumption and investment. With regard to " product per head of population " Western Europe reached the pre-war level by the end of 1949. But this experience conceals divergent trends among individual European countries. For instance the United Kingdom and the Scandinavian countries had already in 1947 regained the 1938 level of *per capita* output, whereas the six countries of the " European Coal and Steel Community Area " (*i.e.*, Federal Germany, France, Italy, Luxemburg, Belgium and Netherlands) were at that time still more than 25 per cent. below the pre-war level.

In view of this situation it is not surprising that in the five years after 1947 the rate of increase in *per capita* output should have been sharpest in the countries which had been hardest hit through destructions by war. During these years (1948–1952 inclusive) *per capita* output in the six " Steel Community " countries rose swiftly by 40 per cent., whereas few other O.E.E.C. countries achieved as much as an increase of 20 per cent. ; the increase in the United Kingdom being about 10 per cent. during this period. Attesting to her striking recuperative power is the fact that Western Europe's product per head developed during this period twice as fast as it did in the United States. However, despite her strenuous attempts to catch up upon the solid gains reaped by America during war-time, Western Europe remains miles behind the United States. For output per head in the United States was by 1952 some 70 per cent. higher than in 1938, while in Western Europe it was only 10 per cent. higher.

The shift in the relative productive power between the United States, and European economies led in the immediate post-war years to severe strains upon the latter's balance of payments. In 1948, when Western Europe's gross product had just reached the pre-war level, her volume of exports was 5 per cent. lower, whilst her volume of imports was 15 per cent. higher than in 1938. As a result of these relationships there was opened up a gap in Europe's balance of payments amounting to 4,000 million dollars in 1948. This gap, having, in the year 1947, reached the large sum of 8,500 million dollars, was reduced to less than 2,000 million dollars in 1949. With the rapid recovery of European production in subsequent years the balance of payments gap was closed and Western Europe achieved a small surplus in 1952. However, owing to the deterioration of Western Europe's terms of trade, the closing of that post-war gap required an increase of nearly 50 per cent. in the volume of Europe's exports over 1938 in order to offset an increase of only just over 10 per cent. in the volume of Europe's imports.

Notes and Comments

THE WORLD BANK: 9TH ANNUAL REPORT

THE recently issued excerpts from the annual report of the International Bank for Reconstruction and Development cover the year ended June 30, 1954. Twenty-six loans in 16 countries were signed during the twelve months, the sum lent—\$324 million—being the highest reached in any fiscal year. By the end of the year the Bank had made 104 loans. The total of commitments under these is \$1,914 million in 34 countries. The greater part of the year's lending was for basic services, of which transport was the biggest beneficiary. Nearly as important were the loans for the expansion of electric power facilities, while smaller sums have been devoted to agricultural development and industrial production.

I.B.R.D. loans are not " tied," and the steady improvement in the supply position outside the U.S.A. has resulted, for example, in a rise in disbursements in Europe from the equivalent of \$68 million in 1952–53 to \$115 million in the year under review. The recovery in the non-dollar world is also demonstrated by the growing importance of the Bank's operations in currencies other than the U.S. dollar : in fact no less than 25 per cent. of the Bank's disbursements during 1953–54 are repayable in " other currencies."

The funds available for lending were raised mainly by bond issues, nearly half of which were taken up by investors outside the United States. Of the total increase during the year in funds made available to the Bank from all sources less than 40 per cent. came from the United States, the balance being obtained in other countries.

The Bank is respected by borrowers because it is strong, and it is approached for the same reason. The number of loans has doubled in the past three years and the lending institution has had a busy time in " vetting " applications and watching over the progress of approved ventures. The Bank lends only part of the money required for a project. As a rule its loans cover nothing beyond the borrowers' expenditures in foreign exchange. Because of the necessity of self-finance to cover the balance, there is

always the risk that a borrowing country may have recourse to inflation or that the project may absorb capital which should be used to meet the country's other investment needs. How far this risk is in fact avoided we do not know, for the summary of the Bank's report goes no further than giving a warning of the danger. It is impossible not to wonder about Brazil, however. Starting in 1949–50, she has received World Bank loans to a total of $194·09 million. It is true that more than half of the lending has been to private enterprises such as Brazilian Traction, but for all I.B.R.D. loans the bond of the borrowing country's government, whether as borrower or guarantor, is the ultimate protection. Indeed, although mortgages or comparable charges have sometimes been provided by private borrowers, the State as borrower has been called upon to give nothing but its promise. A measure of protection is provided by reason of each loan being tied to a particular project which has been approved (and is being overseen) by the Bank; but as far as Brazil and one or two other debtor countries are concerned there is an inflation of the currency at work that may wreck the best-conceived programme. In four years' time, as loans begin to mature for repayment, it will become clear how far the government guarantees are better than mere scraps of paper.

THE FOURTH ANNUAL REPORT OF E.P.U.

At the end of the fourth year of operation of E.P.U. on June 30, 1954, the Managing Board has been able to issue a really encouraging report. The improvement in the internal economic stability of member countries which commenced in the latter part of the previous accounting year was continued and was also accompanied by a fairly marked increase of industrial production as against the previous relative stagnation of this factor. The greatest expansion was in agricultural production and building activity but there was a slackening in the iron and steel industry. The year is, however, described as the most satisfactory in the history of the Union.

Intra-European trade and the trade of the Group with the rest of the world have grown both in volume and value and definite progress has been made with the elimination of quantitative restrictions and the relaxation of controls over movements of goods, services and capital. Some countries have even been able to relax their restrictions on trade with the dollar area. Since the inception of the Union the total of bilateral deficits and surpluses amounted to no less than $24,300 million, of which $18,100 million were actually settled by compensations within the Union. Concern is expressed, however, over the balance of payments situation of Turkey, the continued debtor position of France and the rapidly increasing debtor position of Italy. The rapid increase in the creditor positions of Germany and Austria has also required careful attention but the Board considers that the actions which the countries mentioned have themselves taken and the multilateral arrangements made in connection with the renewal of the Union should help to mitigate the further development of these positions.

The report comments that the increase in the German net cumulative surplus was twice as rapid as in the previous year, while in the case of Austria the increase was even swifter though much smaller. The cumulative surplus of Switzerland rose less quickly than the previous year, while that of B.L.E.U. continued to decline and the Dutch surplus commenced to decrease. The reduction of the cumulative deficit of

the United Kingdom continued at a steady pace and the report states that the economic situation of this country seemed better than at any time since the end of the war.

The Board considers that the Union can still continue usefully to function as an international payments mechanism, particularly in view of the new arrangements which were introduced on the renewal of the Union for a further year from July 1, 1954. These new arrangements should favour further progress towards convertibility but the Board urges the necessity of close co-operation between the Union and the I.M.F. during the transitional period towards a world system of convertibility. Four conditions essential as a prerequisite to a return to convertibility are laid down in the report. Convertibility should only be undertaken under conditions which will maintain or increase trade between the O.E.E.C. countries, both internally and with the rest of the world, rather than to retard it by forcing the imposition of import restrictions. Member countries must work closely together on agreed policies to ensure the sound development of international trade and finance, including long-term capital movements. Internal policies designed to maintain financial stability must be pursued and, finally, countries undertaking convertibility must hold or have ready access to liquid resources adequate to meet temporary balance of payments difficulties.

In this connection the British Chancellor of the Exchequer, Mr. R. A. Butler, on his departure for Washington to attend the annual meetings of the I.M.F. and the World Bank, also laid down three conditions precedent to sterling convertibility. These were freer trade with the U.S.A., the provision of credit by the U.S.A. should it be wanted, and stronger policies in the whole of the British Commonwealth and Empire. Mr. Butler claimed that so far as the last condition was concerned we were a long way towards achieving it but that no spectacular results should be expected from the meetings. The immediate need was for patient progress to consolidate all the gains which had been made and to stabilise the position on a long-term basis. The Chancellor added: "We want the U.S. to do more in freeing their trade."

I.M.F. AND CONVERTIBILITY

THE latest annual report of the International Monetary Fund (for the year ending in June 1954) stresses that for the first time in its history, members bought from it more than twice as many pounds as dollars and indeed repaid dollars. These favourable payment developments reflect, it is urged, a genuine improvement of Europe's competitive power in relation to that of the United States as well as the strength of many primary product prices, partly due to tight supply conditions for coffee, cocoa, and tea and partly due to stockpile purchases especially of tin by the United States. In view of these developments the Fund welcomes the general trend of opinion, and also policy decisions made by individual countries, in moving towards convertibility and is itself prepared to "make possible through the machinery of stand-bye credits the assurance of effective support." But the trend towards convertibility has been gradual and cautious and it is expected that "a similar attitude will characterise the further steps that are likely to be taken in this direction." Above all, further progress towards complete trade liberalisation and exchange freedom may require encouragement from the United States, for instance through the implementation of the Randall Commission's recommendations by the next Congress. The Fund argues that "if convertibility is to be achieved and maintained and import restrictions are no longer to be regarded as the main instrument for keeping external

payments and receipts in balance, this balance will have to be maintained in other and better ways." In some situations this means "the timely adjustment of exchange rates and, above all, it requires the application of domestic and fiscal policies that will ensure internal financial stability." Both as regards speed of achieving convertibility, and the instruments of safeguarding it, readers will consult with interest on page 299 of this issue, Mr. Roy Harrod's thought-provoking approach to the whole problem.

DROP IN GOLD RESERVES

THE sterling area's gold and dollar reserves fell by $95 million during August. The total was thereby reduced from $3,013 million to $2,918 million which is 75·5 per cent. of the last peak of $3,867 million in June, 1951.

During the month $112 million were repaid to the International Monetary Fund. This represented the remainder of the sum of $300 million made available by the I.M.F. in dollars to the United Kingdom in 1947 and 1948. This payment must be regarded as the main reason for the drop in our reserves, but it is not the only one. For the first time this summer, normal seasonal pressures made themselves felt. In addition, it seems likely that there has also been a withdrawal of short-term funds by foreign holders due to the recent weakness of sterling in the exchange markets shown by the narrowing of the spread between money rates in New York and London. However, this speculative outflow must have been comparatively small in consideration of the unusually large inflow of foreign capital in March, April and May this year, and despite the August deficit of $5 million with non-sterling countries outside E.P.U. (compared with surpluses of $76 million in July last and $39 million in August 1953), there is no indication of a fundamental change in the strength of sterling.

Defence aid receipts from the United States fell by $4 million and amounted to $11 million in August, whilst receipts from the European Payments Union in part settlement of the July surplus accounted for $11 million to which must be added a payment of $2 million to Britain's E.P.U. creditors.

On the provisional figures for the month, the United Kingdom had a deficit of £8 million with the Union, which will fall to be settled in September, as to 50 per cent. in gold or dollars and as to 50 per cent. by receipt of credit from the Union.

MORE MONEY FOR EMIGRANTS

WITH effect from August 31 last the Treasury has relaxed the hitherto severe restrictions on the export of capital by persons who are emigrating from the United Kingdom. Emigrants to countries outside the Scheduled Territories will be re-designated as residents of their new countries of permanent residence as soon as they have left the United Kingdom, instead of at the end of four years as at present. They will also be entitled to receive the whole of their settling-in allowances immediately instead of in instalments over four years. These are valuable concessions. The settling-in allowances remain unchanged except that the allowance for non-dollar non-sterling countries will be £5,000 per family unit for all such countries instead of for O.E.E.C. countries only. This concession, in practice, seems negligible.

The immediate redesignation of an emigrant has another result which, for a wealthy person, is far more important than any of the advertised concessions. A non-resident

is normally permitted to sell his sterling securities and get his money out in his own currency (say dollars) through the switch market at whatever the current discount on switch sterling may be. So an emigrant, from now on, instead of having to wait four years, can go ahead at once with such a capital transfer—and at the moment the discount is small, varying from 1 per cent. to 3 per cent. Operations of this type do not involve a diminution of the United Kingdom's foreign currency reserves, for before switching can take place there must exist some non-resident willing to buy in foreign currency or from an appropriate non-resident account.

So far, so good. Here is another small evidence of the authorities' confidence in sterling : but it is a confidence that benefits people who up to now have been residents. The people who have to be favourably impressed are the non-residents and, as far as those in Europe are concerned, the only minor move that will influence them is a revocation of the ban on the import of Bank of England notes. The time for such an easement is overdue, and if it can be made to coincide with the temporary autumnal weakness of sterling it will be all the more impressive.

BANK CAPITAL CHANGES

SEVERAL new names have been added during the past few weeks to the list of banks which have announced capital schemes of one kind or another. A brief record of the Royal Bank of Scotland proposals to bring the bank's capital more into line with the actual capital employed in its business appeared in *The Bankers' Magazine* for September (page 205). The free issue to proprietors of £2 of new stock for every £5 held entails an increase in the capital of £1,700,000 by capitalising part of the published reserves, but on the other hand £1,872,784 is being transferred from the bank's inner reserves to the published reserve fund. These changes will raise the issued capital to £5,950,000 and published reserves to £5,050,000—a total of £11,000,000.

At the same time, a change is being made in the form of transfers of the bank's stock. The special form of transfer which has so far been necessary is being discarded, and the common form of transfer is to be used, while definitive certificates are to be issued to stockholders instead of stock receipts.

Somewhat similar changes to those in the capital of the Royal Bank are being made by the bank's two subsidiaries. Glyn, Mills and Co. is transferring £280,000 from inner reserves to the published reserve fund, and is issuing £140,000 of new capital as a capitalisation of part of its published reserves. The transfer from the inner reserves of Williams Deacon's Bank is £675,000, and the free issue of new capital consists of 400,000 " B " shares of £1 each. The new shares will be allotted in each case to the Royal Bank of Scotland as holder of all the issued capital of the two institutions.

The scheme announced a few weeks ago by Barclays Bank (Dominion, Colonial and Overseas)—the title of which is now being shortened to " Barclays Bank D.C.O. "—is of a different kind. It consists of a consolidation of the bank's capital into a single class of ordinary stock, and concerns primarily the 500,000 " B " shares of £5 each, with £2 per share paid up, held by Barclays Bank and representing the financial backing provided by that institution when Barclays D.C.O. was established in 1925. The latter bank has now accumulated substantial reserves, and Barclays Bank is paying up

the balance of £3 per " B " share (£1,500,000) and in addition is paying £1,875,000, which would represent the difference between the nominal value and the market value of a holding of £1,500,000 of Barclays D.C.O. " A " stock.

Barclays Bank had voting control over Barclays D.C.O. by virtue of its holding of " B " shares. These shares are now eliminated and the voting rights of the " A " stock are being altered to give this stock, under its new title of ordinary stock, one vote for every £1 held instead of one vote for every £10. As a considerable holder of the " A " stock as well as its " B " shares, however, Barclays Bank will still have over 50 per cent. of the total voting power in Barclays D.C.O.

As a result of the changes in its capital, Barclays D.C.O. receives a total payment of £3,375,000 of which £3,000,000 is to be used to increase its investment in Barclays Overseas Development Corporation by subscribing further capital. This will enable the Development Corporation to retire the £3,000,000 of notes held by Barclays Bank, and with capital and reserves totalling £6 million, the Corporation should be in a position to obtain fresh funds on its own responsibility from outside sources for the development of its expanding business.

FRENCH WOOL CREDIT RENEWED

ANNOUNCEMENT last month of the further renewal of the London credit for the French wool textile industry caused no surprise in the City. London is already established as a provider of finance on these lines, arrangements similar to those now concluded having been in force since 1947. The credit, which reaches the French industry through the Groupement d'Importation et de Repartition de la Laine, finances raw wool purchases from British Commonwealth countries, and, as in previous years, it has been granted by a banking group headed by Lazard Brothers and Company.

The terms are precisely the same as those in force last year, comprising an acceptance credit for £12,500,000, subject to a temporary increase of £2,500,000 during the peak of the wool buying season. Repayment is again linked with the export of French woollen manufactures, and the security includes forward exchange contracts in favour of Lazard Brothers to meet the maturity of drafts, normally three months' bills. In the 1953–54 season, the credit then in force was turned over twice, financing Dominion wool shipments to France totalling about £30 million

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F.C.I. INVESTMENTS

JUDGED by purely commercial standards, the results of the Finance Corporation for Industry for the year to March 31 leave a good deal to be desired, but commercial profit is not the Corporation's primary objective. Its report shows that it is performing valuable work, particularly at the present time, when large investment is essential to the future efficiency and competitive power of British industry. The revenue balance for the past financial year was £2,652,474, which compares with only £200,963 in the previous year and with £489,540 in 1951–52. The 1953–54 figure, however, includes £2,250,000 received as compensation for the option rights formerly held by the F.C.I. into the equity capital of steel companies which have now been nationalised. Without this extraneous addition, the past year's recovery in earnings would have been far less impressive.

As in previous years, the whole of the revenue balance has been applied to writing down the value of the Corporation's investments. These include its petrochemical interests, principal among which is the holding of some £8·5 million in Petrochemicals Ltd. This company's capital expenditure exceeded original estimates, and the project has taken longer than anticipated in reaching the profit-earning stage. It has now reached a point where profits are being earned, but not on a scale sufficient to cover depreciation and interest on borrowed capital. Possibly for this reason, Lord Bruce of Melbourne, the F.C.I. chairman, is still uncertain whether or not the Corporation's provision for investment depreciation is adequate.

The balance sheet shows that investments, comprising loans and participations, declined from £60·9 million to £58·9 million as a result of the year's operations. Securities of companies taken over by the Iron and Steel Holding and Realisation Agency amounted to £36·3 million, a reduction of £3·2 million, owing to repayments by one of the steel companies now disposed of by the Agency. Investments apart from iron and steel, on the other hand, increased from £21·4 million to £22·6 million, and the Corporation had undertaken to make further investments totalling £18·3 million at the end of its financial year. Since none of these new commitments was in respect of iron and steel projects, the Corporation's actual and prospective investments outside the iron and steel industry, amounting to some £41 million at the end of the year, accounted for considerably more than half its total participations and commitments. This suggests a wider spreading of its investments, but that does not necessarily imply any slackening of its support for the iron and steel industry.

EAST-WEST TRADE

THE Credit Insurance Association Ltd., a business enterprise largely concerned with negotiating the insurance of foreign trade risks, has over the past three years published three or four extremely useful surveys of export problems. The nature of German competition and the Latin-American outlook have been two of the regional matters dealt with, and now the Association has given us in *East-West Trade* a guide to the methods and prospects of selling British goods to the Iron Curtain countries. A year ago this subject would not have had the interest it enjoys to-day but it came very much alive when the Prime Minister, last February, gave strong encouragement to those seeking " to interchange merchandise and services " with " Soviet Russia and its Satellites." The pamphlet before us wisely emphasises at the start that though there may be some good business available in Communist markets it must not be assumed that it is either stable or permanent—in other words, it is entirely at the mercy of a change in Moscow's political directives. Even in the present phase of " peaceful co-existence " there are innumerable practical snags (awkward arbitration clauses, for instance) and the paragraphs dealing with these should be carefully studied by intending exporters. " Terms of payment " on pages 13 and 14 is of importance but we think exporters to Russia should be warned that though they may secure London documentary credit terms, the credits will be those of the Moscow Narodny Bank and it will be useless to ask the Russians for the confirmation of a British bank. Incidentally, though the pamphlet refers to the fact that payment terms to the satellites are tending to become less favourable to sellers it does not mention that in recent months a fair amount of business has been conducted satisfactorily with Poland on an " outward bills for collection " basis.

October, 1954

THE FIRST HUNDRED-MILLION

The Co-operative Permanent Building Society announce that on September 13 the assets of the Society reached a total of more than £100,000,000.

The progress of the Society during the past ten years can be seen from the following comparative figures :

	Share Capital Deposits and Loans £	Mortgage Assets £	Total Assets £	Number of Accounts
1944	35,416,061	27,645,990	37,217,120	184,358
1953	82,466,517	73,383,488	86,674,335	302,970

The Society recently announced that mortgage approvals are running at a higher level than at any time in the Society's history and that as far as the immediate future is concerned it will be able to lend all the funds it can obtain.

BULLION NOTES

With good turnover being effected at the ' fixing ' and dealers generally quite active throughout the day, the London market is gradually recapturing its position of pre-war eminence. Apart from normal Continental enquiries, buying orders have been received from the Middle and Far East, and, though naturally enough such demand has not failed to exercise an influence, the sharp rise that had occurred by September 16—when the ' fixed ' price was 250*s*. 8*d*.—was in the main to be accounted for by the strength of the dollar-sterling exchange rate. While on that day the ' fixed ' price produced a parity, delivery London, of $35.03, it is worthy to note that of recent weeks the parity has varied—according to supply and demand—between $35.04 and $35.09. Certain overseas centres have evinced renewed interest for coins ; in London, business in sovereigns and half-sovereigns has been effected around 70*s*. and 31*s*. respectively.

Paucity of supplies was largely responsible for the recovery that occurred in silver during August ; compared with the official quotation on July 21 of 72*d*., the price by August 20 had climbed to 73¾*d*. However, in consequence of renewed Russian and Japanese sales, the price was lowered to 73*d*. on September 8 since when, with fair Continental offtake, it has remained steady. In New York the price of 85¼c, has been maintained unchanged ; consumer demand has been steady to fair with the Bank of Mexico still prepared to absorb excess offerings of Mexican silver. It has been reported from Washington that the Netherlands Government has already begun to effect shipments of silver against the amounts borrowed from the U.S.A. during World War II, and which, in fact, were only due for repayment by April, 1957.

Activity in platinum has continued to narrow ; in the result, with scattered offerings, the price has further receded.

BETTER CHEQUES

Mr. Godwin's article in our August issue attracted some correspondence and two points raised therein need elaboration. One writer says that it was always the understanding of bank staffs that the blank space at the left-hand corner of the cheque would be later assigned to some special purpose. He thinks that crossing stamps could have been slanted in this direction so

as to avoid the sometimes messy obliteration of material parts of the cheque. We doubt whether there would be any net advantage. Right-handed as most of us are, the swift stamping towards the left-hand side of the cheque would be an awkward operation, and minimise the saving of time gained elsewhere by the present design of cheques. Another of our correspondents takes exception to the advice that alterations should be confirmed by "your initials written alongside each alteration." We feel he is on firm ground here, and that it would be safer to insist on all material alterations being confirmed by a full signature, though admittedly the banker may accept initials at his discretion for minor amendments.

FUTURES IN COMMODITIES

DEALING in cocoa, wool and rubber futures are now in full swing. An excellent short description of these comparatively new markets is given in *The Three Banks Review* published on September 13 last. Of these three commodities, wool is the latest addition, the futures dealings commencing as recently as April, 1953. There is a basic similarity between the dealings in all three markets, though naturally enough there are some procedural differences. The article by B. S. Yamey entitled "Future Trading in Cocoa, Rubber and Wool Tops" is fully explanatory, and for the busy banker, commendably concise.

FINANCIAL TIMES SURVEY

AN admirable survey entitled *Industrial Germany* was published by *The Financial Times* on September 13, 1954. Amongst other articles on various German industries, it contains a contribution by Professor Ludwig Erhard, the Federal Minister of Economics, on "The Recovery of West Germany" and one by Mr. H. J. Abs entitled "Towards Convertibility." Together with the articles on *German Banking* which appeared in the August issue of *The Bankers' Magazine*, this excellent survey gives a fairly complete picture of the German economy to-day.

FUJI BANK'S NEW PREMISES

THE Fuji Bank opened its new premises at Salisbury House, Finsbury Circus, on September 20, 1954, and a number of distinguished guests were present at the opening ceremony.

The Fuji Bank is the largest of the twelve foreign exchange banks of Japan and its last statement of account on March 31 amounted to nearly 306,000 million yen.

The newly appointed Resident Director and Manager in London is Mr. Masao Nitani.

Overseas Notes and Comments

THE END OF SPERRMARK

WEST GERMANY'S central Bank, the Bank deutscher Länder, announced last month the freeing of all *Sperrmark* balances as from September 16, 1954. This important step on the eve of the annual meetings of the International Monetary Fund and the World Bank was taken after

consultation and in agreement with Professor Erhard, the West German Minister for Economic Affairs. It is another proof of Federal Germany's economic strength and of her determination as well as ability to establish convertibility at an early date.

According to these new regulations foreign holders of blocked marked accounts can now transfer their balances to any country they choose, with the temporary exception of dollar countries. Alternatively their balances can be transferred to a so-called " liberalised capital account " which offers the following five opportunities :

1. Balances can be transferred to and between all countries that have clearing arrangements with West Germany (except dollar countries).
2. Balances can be transferred to a partially convertible DM account.
3. Balances can be sold and transferred to liberalised capital accounts of other non-residents.
4. Balances can be used in Germany for travel expenses, for supporting persons living in Germany, etc., in accordance with the laws already in existence for *Sperrmark.*
5. Balances can be invested in Germany.

Another important change concerning non-residents is the abolition of restrictions on all profits, interest and other incomes originating from possessions in Germany. These can now be freely converted into any currency including dollars.

It is estimated that the total sum involved amounts to some DM 650 million of which almost two-thirds, namely about DM 400 million, have already been partly de-blocked since last winter when the Bank deutscher Länder did the first steps to free the *Sperrmark.* The possible additional transfer burden of this last step in the freeing of blocked mark balances amounts therefore to at least DM 250 million. But even if the total sum were claimed, it could not seriously endanger the Federal Republic's reserves in gold and foreign exchange.

PRECARIOUS RECOVERY

LAST summer Finland had just started her slow climb to recovery from the crisis that the sharp fall in commodity prices which followed the Korean cease-fire had plunged her. In the second half of 1953 a trade surplus of 15,900 million finmarks was earned ; for the complete year, however, the favourable balance was only 9,700 million. Although the volume of exports increased, the satisfactory outcome owed much to a drastic reduction of imports. The Finns have a fine record of commercial integrity and the Government is as alive as individual traders to the need to cut its coat according to its cloth. The extent of the recovery between 1952 and 1953 is shown by the fact that in place of the balance of payments deficit of 21,300 million finmarks in 1952 a surplus of 11,500 million was achieved last year.

The improvement has continued this year. There is a seasonal import surplus in the early months of the year but in the first four months it amounted to only 5,500 million finmarks, nearly 2,000 million less than in the same period last year. Surpluses were shown in May and June and for the six months as a whole the passive balance was 4,000 million lower than last year—a substantial achievement.

Finland's economic well-being depends on the export trade and the bulk of the foreign exchange income comes from the sale of forest products ; in 1952 they earned

83 per cent. of the total income and last year 77 per cent. The immediate outlook for sales is reassuring : the demand for Finland's main products is quite strong and the terms of trade are continuing to move in her favour. It is now expected that for 1954 as a whole the value of exports will exceed last year's figure by 20 per cent.

The recovery is undoubted, but fundamental difficulties remain. Rising prices for her main exports are tending to mask the key problem—high internal costs. A number of factors in recent years have combined to force Finland's cost structure up to a point where now her competitive position in export markets is endangered. The same problem, too, affects other fields of production. The domestic cost level generally hardly gives the industries catering for the home market a chance to compete, price for price, with foreign products. With the general pressure in Western European countries to liberalise foreign trade, this could be serious. Sooner or later the problem must be faced.

In fact, Finland's recovery is precarious. Until adequate internal measures have been taken, too much depends on external factors which the Finns cannot influence. The finmark could too easily come under heavy pressure.

ANGLO-HUNGARIAN AGREEMENT

RELATIONS between the United Kingdom and Hungary were broken off in December 1949 because of Hungary's unjustifiable imprisonment of Mr. Edgar Sanders. Changes in the leadership of the Hungarian Workers' Party in July 1953 heralded a more conciliatory Communist policy : the economic situation had gone from bad to worse and the Government were frightened. Mr. Sanders was released the following month and Anglo-Hungarian negotiations were resumed in March 1954 but it was not until five months later that a trade agreement was signed. The new *modus vivendi* runs for the twelve months commenced September 1 last and is preliminary to negotiating, before September 1955, settlements in respect of Hungary's liabilities for public and private debts, nationalisation of British property and claims under the peace treaty.

Prior to the Sanders affair British imports from Hungary were running at an annual rate of nearly £7 million, and trade in the opposite direction at about £4·7 million. Under the new agreement quotas for Hungarian exports to the United Kingdom have been agreed at approximately £5·5 million—mainly foodstuffs and bristles—while our sales (approximately £5 million) are expected to consist chiefly of wool tops, pharmaceuticals and machinery. At the same time, Hungary has been brought into the transferable account area.

This agreement bears witness both to the chastened mood of the Hungarians and to the notion of " peaceful co-existence " now being advertised in another place. In so far as it restores an old market to Britain it is to be welcomed, but we should feel happier were there any real evidence that Hungary intends to meet her accrued sterling obligations. These must by now amount to something like £25 million and a good deal of it is represented by property expropriated from concerns such as Lever Bros. and Dunlops. The stolen assets are there but it is difficult to believe that the co-existentialist mood will be equal to handing back the booty.

October, 1954

GREECE

When Mr. Markezinis, the energetic Minister of Economic Co-ordination, resigned last April reactions abroad, as we mentioned in our May issue, were unfavourable. His had been a strong and able hand directing Greece's struggle for recovery—he was a difficult man to replace. Reports to date, however, show that at any rate the initial shock of his loss has caused no setback; Greece's recovery is still proceeding satisfactorily.

The severe devaluation of the drachma last year and the abolition of import control do not appear to have led to any serious inflationary pressure, while the 300 million drachma internal loan floated in June was quite heavily oversubscribed. Perhaps most important is the improvement in the balance of payments: in both the years ending June, 1953 and June, 1954 there was an adverse trade balance of $114 million (the value of trade was higher in the latter year) but whereas in the earlier period net invisibles amounted to $68 million they increased to $92 million in the year ended June last. The most recent deficit was more than covered by special receipts—mainly American aid—which amounted to $51 million; consequently the reserves benefited by $29 million.

Shortage of capital relative to all the necessary works of reconstruction and development is a chronic problem in Greece. With American aid tapering off it is noteworthy that the World Bank has recently sent a mission to Athens and, according to an official Greek statement, has agreed that a rapid reorganisation of long-term industrial credit is necessary and has indicated that it would be prepared to consider granting a loan for the purpose. This is also cheering news to holders of Greek bonds, as the Bank, which will not lend to countries which have old debts outstanding, must presumably be satisfied with the reasonableness of the proposals the Greek Government were to lay before their creditors towards the end of last month in Paris.

ENOSIS

When the British occupied Cyprus as a result of the Anglo-Turkish Convention of 1878 they were immediately greeted by the bishops of the Orthodox Church with a demand for Enosis, Union with Greece. The Church has continued to lead the Enosis movement ever since but until a year ago it remained an Anglo-Cypriot matter which Britain, at least, did not take over-seriously; indeed, a socialist Secretary for the Colonies once contemptuously dismissed the demand as an "idle dream". In recent months, however, the pace has quickened and the Enosist leaders have persuaded the Greek Government to submit an appeal on the issue of Cyprus to the United Nations. It is one of those issues to which "right" or "wrong" cannot be applied and the Enosists are showing themselves poor friends of their island in refusing even to consider the compromise solution of self-government within the Commonwealth. Let us admit that prior to 1940 the British showed an unpardonable lack of interest in Cyprus; but since then enormous development has taken place under the 1946 ten-year plan. Malaria has been stamped out; exports, which averaged £4·2 million in 1944–1948, amounted to £15·4 million in 1953; in spite of an adverse trade balance there is a surplus on the balance of payments; schools and co-operatives are springing up everywhere and there have been four consecutive years of peace in industrial relations.

If it is to be Enosis, there must be real (as distinct from paper) protection for the 18 per cent. Turkish minority, and there has got to be a guarantee of the interest and

capital of a public debt now amounting to £6,660,296 and fully covered by assets. One has only to consider what fate has befallen investors in the sterling bonds of the Greek Government to realise what union with Greece would mean to holders of Cyprus loans, and as for the minority of the Turks the idea that their rights would be respected is contrary to all recent experience of our uncivilised world.

There the matter stands ; but British bankers can hardly be blamed if for the time being they take a rather more cautious view of Cypriot risks.

NIGERIA SEEKS THE WORLD BANK

THE International Bank for Reconstruction and Development has just published a report appraising the development prospects of Nigeria and recommending measures for realising them. The composition of the ten-man mission that drew up the report gives a good idea of how widely the Bank casts its net in its recruitment of experts. Altogether six countries were represented : the agricultural specialist was a Turk, the educationist from the U.S.A., the transport adviser from France, and so on.

The development programme recommended covers the five fiscal years ending March 31, 1960, and is directed mainly towards strengthening basic services. Fortunately Nigeria has two of the essentials—manpower and funds. The pace of development will, however, be retarded by lack of sufficient technical and management skills and by imperfect knowledge of the country's resources. Big training schemes must be set on foot, but even so there will for years be more jobs for supervisors than Nigerians to fill them.

To finance the programme of the mission an expansion of government expenditure from a level of £51 million in 1952–53 to something like £97 million in 1959–60 will be necessary. This will involve an increase in government revenues and the mission's chief recommendation under this head is for higher local taxes, to be used primarily to finance the educational and social services sections of the programme. A further recommendation is the elimination of import duties on essential consumer goods and on capital goods for development, other import duties to be increased to a greater extent so as to secure higher total revenue from this source.

One recommendation of the mission is that a State bank shall be created as soon as possible to act as a central bank. It may be presumptuous to question this suggestion but it seems to us to show too great a respect for institutions as such and too slight a realisation of the facts of Nigerian banking history. There cannot be a bank without a management ; there can be but a small surplus of British managerial skill and a nascent nationalism would suspect it if it were put into the central bank saddle ; yet is it suggested that the experienced labour needed is to be found locally in a country where post-war failures among indigenous banks have been the rule rather than the exception ?

BRAZIL SINCE VARGAS

THE suicide of Dr. Vargas on August 24 has led to the assumption of the Presidency by the Vice-President, Senhor Joao Cafe Filho, and the appointment of new finance minister, Senhor Guden, a man with a reputation for good sense. An extraordinary amount of good sense will be needed, for Vargas left behind him a heavily depreciated currency, an economy in full inflation, and

foreign trade payments arrears equivalent to about £280 million. Senhor Guden has announced his disapproval of the financial policy pursued by the old régime but so far no constructive measures of any importance have been taken. The remedies needed are simple to state but difficult to apply—retrenchment, reform and acceptance of the law of supply and demand as it applies to the country's exports. The inflation cannot be scotched at one blow, it can now only be reduced methodically over a period—but that is essential. Reform means, first of all, reform of the Budget in an anti-inflationary climate, than an abandonment of the more wildly costly industrial experiments in self-sufficiency, and then a recognition that a policy of persistent default is not the way to obtain new credits. As to the foreign trade situation, everything turns on Brazil's willingness to accept the fact that if there is a ceiling price for coffee it is one decided upon by consumers, all of whom cannot be squeezed all the time. The British Ambassador to Brazil in a recent speech in Rio lamented the " strange myopia " of the inhabitants of Britain when it comes to Latin America. His Excellency is misinformed : we see the magnificent long-term prospects clearly but every business man must ask how many years he is to go on being owed money on the security of a brave new world that never seems to get any nearer.

JAPAN'S TRADE WITH THE STERLING AREA

EARLY last month meetings took place in London to consider the progress made as a consequence of the Anglo-Japanese payments agreement covering the year 1954. Neither party can have felt pleased with the figures so far built up. In 1953 Japan imported £240 million worth of goods from the sterling area while selling to it £130 million. This sterling deficit had been partly covered by using earlier reserves and by borrowing on " swap " operations. It was plain that her purchases must decrease unless the sterling area was prepared to buy more. The 1954 agreement was based on the assumption that Japan's imports would fall by £30 million to £210 million and her exports rise by £80 million to the same total. At half time, by June 30, the position was as follows (comparable figures for 1953 in brackets) in £ million :—Japanese Exports 68·0 (52·4) Japanese Imports 66·2 (120·5).

At this rate, the year-end will show the exports at £136 million and the imports at £132·4 million. The drain on Japan's sterling will have been reduced to her net invisible payments but the trade each way will be more than £70 million below what was hoped for when the 1954 agreement was signed. In considering this short-fall it must be kept in mind that the balancing figure of £210 million had no compulsive power ; the negotiators could not do very much to secure its translation into practice. As to Japanese exports, the United Kingdom seems to have done little or nothing to facilitate greater entry, for U.K. January/June imports are given in the Trade and Navigation returns as follows over the past three years :—£11·4 million ; £6·4 million ; £4·4 million. Yet for a variety of reasons the most hopeful outlets for Japanese manufactures are in the rest of the sterling area. This is a doctrine that finds little favour in Lancashire but it is inescapable. The trade between Japan and any given part of the sterling area need not be bilateral, however ; Australia, for instance, even were she to step up her imports (as she surely must) cannot be expected to buy goods of a value equal to her shipments of wool. It is natural that Japan should develop considerable surpluses with, say, our African colonies, to be offset elsewhere. But it is not going to be easy to tread

the road of trade expansion. Japan does not enjoy anything like the same costs margins that she had before the war; Pakistan and India have developed their own Lancashires, which are fully determined to look after their sectional interest; Australian manufacturers (mostly rather high-cost) can be trusted to watch every competing inward shipment—and so on.

So much for the trading interests. Yet they are not the only ones. A great deal is being said at present, and rightly said, about the importance of securing the allegiance of Germany to the conception of civilisation held by the Free Nations. What is so easily forgotten in England is that a similar allegiance must be sought from Japan if liberty is to retain a foothold in Asia, and an impoverished, hard-driven people will prove uncertain allies in a struggle of ideas. The admission of Japan to G.A.T.T. will shortly come up once again for decision. Hitherto the barrier has been Commonwealth opposition, led by Britain. We must give way on this, frankly and fully, and seek to win the ex-enemy's co-operation. The effort may fail but the opponents of trust have yet to present an alternative policy. Time is not on the side of the Men of Good Will; it rarely is. During the first seven months of this year Japan's deficit on international payments and receipts was equivalent to $159 million and her stock of uncommitted foreign exchange today is probably less than $500 million. There is therefore still a margin of safety but its narrowness is a warning both to the United States and to the United Kingdom.

Obituary

Sir Kenneth MacKenzie MacDonald, M.C.

WE regret to report the death of Sir Kenneth MacKenzie MacDonald, M.C., on August 17, 1954, Sir Kenneth was born at Jesmond, Newcastle-upon-Tyne, in 1878. He joined the Bank of Bengal, Calcutta, in November, 1900, and served in India and Burma until the outbreak of the first World War. He was on leave in England in August, 1914, and immediately joined up, serving in the R.F.A. where he rose to the rank of Major, and earned the Military Cross for gallantry in the field. He returned to India in 1919 as Agent at Dacca, and subsequently after service at Lahore became Agent in Rangoon when the Presidency Banks were amalgamated into the Imperial Bank of India in 1921. After various promotions he became a Managing Governor of the Imperial Bank in 1929. He was knighted in 1933 in recognition of the work he had done for Indian banking, and it was with regret that in 1934 his service to the Imperial Bank came to an end upon his retirement.

Sir Kenneth was a banker in the best tradition. He loved India and the Indians and worked constantly for their benefit. He was a good all-round sportsman, but preferred riding and golf to other outdoor pastimes, and, being a finished horseman, won in 1903-4 the coveted Calcutta Paper Chase Heavy Weight Cup. He was a genial host and his passing will be mourned by all as another link lost with those who endeavoured to build up a sound banking system and to establish those happy commercial relations with Indians which have helped so enormously in the transition period of the last ten years.

October, 1954

Some Legal Aspects of the Finance Act, 1954

Part I—Income Tax and Profits Tax

By C. B. Drover

The 1954 Budget was, so far as the ordinary man in the street is concerned, a " stay-put " Budget. There were no changes in the standard rate of income tax, the allowances granted to individuals or the sur-tax rates, and the Budget was accordingly dismissed by the public as dull and unimaginative and duly forgotten a short time after the Chancellor's proposals had been announced.

Nevertheless, the resulting Finance Act has introduced a number of important changes so far as the taxation of companies is concerned. In particular, a new capital allowance called an " investment allowance " has been introduced, which will in most cases take the place of the initial allowance. Also provision has been made to prevent the cessation and commencement provisions being utilised by means of the reconstruction of a company so as to bring about a tax advantage in cases where profits have fallen, and there are various other matters, of a more or less particular nature. So far as estate duty is concerned, there is provision to mitigate the rigours of Section 55 of the Finance Act, 1940. That is the section which provides, in general terms, that where a person dies holding a controlling interest in a company, his share-holding has to be valued for estate duty purposes on an " assets basis," and not on the market value of the shares. Total exemption from estate duty is extended to estates not exceeding £3,000 in principal value (the previous limit being £2,000), and in the case of estates of value between £3,000 and £4,000 the rate of duty is reduced from 2 per cent. to 1 per cent. There are also changes in the aggregation provisions. The Act makes no change at all in the law relating to stamp duty.

As is usual the provisions are for the most part complicated, and it is the purpose of this article to try and give some explanation of the relevant sections of the Act, in the hope that it will prove of some assistance to those whose daily work requires them to have some knowledge of taxation matters.

Section 14. This Section provides that income tax for the year 1954–55 shall continue to be charged at the standard rate of nine shillings in the pound and that, in effect, the surtax rates shall remain unchanged.

Section 15. This section provides for the repayment of post-war credits at the date when the person originally entitled to the credits would have been entitled to claim payment, if he or she had not died or become bankrupt. It will be recollected that post-war credits were introduced by Section 7 of the Finance Act, 1941 to cover the reduction of certain income-tax reliefs introduced by that Act. It was provided that the person entitled to the credits should have the amount of such credits credited to him on a date to be fixed by the Treasury, " so soon as may be after the termination of hostilities in the present war." No date has yet been fixed, but by Section 26 of the Finance Act, 1946 and Section 16 of the Finance Act, 1947 provision was made for the payment of

post-war credits to the persons entitled on the attainment of the ages of 65, in the case of a man, and 60 in the case of a woman. If a person so entitled died having attained the required age but without having made a claim for repayment, his or her successor would not be entitled to repayment until attaining the requisite age. Furthermore, if the successor happened to be a charity, it would appear that such charity could never obtain payment. Neither a bankrupt, nor his or her trustee in bankruptcy, could claim repayment on attainment by the bankrupt of the requisite age. The present section provides that payment can now be obtained by the successor on or after the date when the person originally entitled would have attained the age of 60 or 65, as the case might be, regardless of the age of the successor. The result is that the anomalies mentioned above are swept away and the field of repayment is extended. Originally any assignment or charge of a post-war credit was void, but this did not apply to any assignment or charge made by personal representatives. The present section now provides that an assignment or charge made by personal representatives shall also be void, unless made before the commencement of this present Finance Act or unless made to a beneficiary under the deceased's will or intestacy or unless made to a creditor of the estate, where the estate is (or but for the post-war credits would be), insolvent.

SECTION 16. This section institutes the new system of investment allowances with regard to certain capital expenditure, which will for the most part replace the system of initial allowances. The present system of capital allowances was instituted by the Income Tax Act, 1945, and in general terms, the system provides that for certain types of capital expenditure, an initial allowance should be allowed as a revenue expense for tax purposes, in respect of the year in which the expenditure was incurred, and annual allowances allowed in respect of each year until the whole of the expenditure had been allowed as a revenue expense. If the asset so acquired by means of the capital expenditure were to be sold or disposed of, a balancing charge would be levied to the extent that the total amount allowed as a revenue expense, plus the proceeds of sale or disposition of the asset, was in excess of the actual capital expenditure. On the contrary a balancing allowance (that is to say, an additional revenue allowance) would be allowed, to the extent that the total amount allowed as a revenue expense, plus the proceeds of sale or disposition of the asset, was less than the actual capital expenditure. Under the system now introduced, an investment allowance in most cases takes the place of an initial allowance, and when computing the amount of a balancing charge or allowance, the investment allowance is not taken into consideration, with the result that the charge would be smaller or the allowance greater, as the case may be. Furthermore, the annual allowances will be greater after the first year since they will be based upon the amount of the capital expenditure, without deduction for the amount of the investment allowance, contrary to what would be the case if an initial allowance were to take the place of the investment allowance. In the result, the taxpayer can write off the whole cost of an asset over its life and receive a tax bonus of ten or twenty per cent., as the case may be, of the cost price.

Investment allowances may be made at the following rates in respect of the following categories of expenditure :—

(*a*) Industrial buildings and structures 10%
(*b*) New machinery and plant 20%
(*c*) Mines and oil wells 20%

(*d*) Farm and forestry buildings and works 10%
(*e*) Scientific research 20%

So far as (*a*) is concerned, where the mills and factories allowance under Section 277 of the Income Tax Act, 1952, is still in operation, the right to an investment allowance will not be thereby excluded. Also expenditure on preparing, cutting, tunnelling or levelling land is not, in general capital expenditure—(*see* Section 278 (1) of the Act of 1952)—and does not qualify for an initial allowance, but it will qualify for an investment allowance.

With regard to (*b*), it is emphasised that only new machinery and plant qualify for the allowance. Also investment allowances are not applicable to " expenditure incurred on the provision of road vehicles unless they are of a type not commonly used as private vehicles and unsuitable to be so used, or are provided wholly or mainly for hire to or for the carriage of members of the public in the ordinary course of a trade." Second-hand items of machinery and plant and private road-vehicles, will however, qualify for initial allowances. In the case of ships, where a taxpayer qualified for an initial allowance of 40 per cent. under Section 279 (5) of the Income Tax Act, 1952, he may now surrender his right to that allowance, and take instead an investment allowance. The former allowance would give him a larger immediate deduction with smaller annual allowances, the latter would give him a smaller immediate deduction, but larger annual allowances and possibly an advantage if the ship came to be disposed of. Furthermore, where expenditure on new plant or machinery is allowed to be deducted as an expense in computing liability to tax, e.g. in the case of renewals or replacements, an investment allowance may be claimed.

In the case of (*c*) an initial allowance of 40 per cent. is allowed in respect of capital expenditure (as defined in Sections 305 and seq. of the Income Tax Act, 1952) in connection with mines and oil wells. Now, provision is made for an investment allowance in respect of such expenditure, and the taxpayer has an option to take either an investment or an initial allowance.

With regard to the farm and forestry buildings and works referred to in (*d*), these do not qualify for an initial allowance, but under Section 314 of the Income Tax Act, 1952, an owner or tenant who incurs capital expenditure on such buildings and works may charge the cost as a revenue expense spread equally over ten years. An investment allowance of 10 per cent. is now allowed in addition, so that 110 per cent. of the expenditure is recovered over the ten year period.

So far as (*e*) is concerned, no initial allowance was granted in respect of this expenditure, but by Section 336 of the Income Tax Act, 1952, expenditure of a capital nature on scientific research related to a trade could be charged as a revenue expense. In respect of expenditure incurred between April 6, 1946 and April 6, 1949, the expenditure could be charged equally over five years. In respect of expenditure incurred on or after April 6, 1949, three-fifths could be charged in the first of the five years, and one-tenth in each of the succeeding four years. Now an investment allowance of 20 per cent. is allowed additionally in the first year.

The Second Schedule to the Finance Act, 1954, contains safeguards against avoidance and provides that an investment allowance may be withheld or withdrawn (and, where applicable, an initial allowance substituted), if certain events occur within a period of

three or five years. The events are such things as : a sale of the property representing the expenditure where the buyer is a person not resident in the United Kingdom ; a change of residence of the person incurring the expenditure so that the property concerned ceases to produce profits which are subject to tax ; any appropriation of the property concerned to a purpose which would not have entitled the expenditure to have qualified for the allowance ; a sale, transfer etc., of the property concerned, if it appears either that the expenditure was incurred in contemplation of the property being so dealt with, or that the sole or main benefit accruing from the whole transaction was, or derived from, the investment or other allowances in respect of the property, and a sale of a road vehicle which has qualified for an investment allowance, to a person acquiring it otherwise than for a qualifying purpose or as scrap.

SECTION 17. This section is intended to stop companies from carrying out a reconstruction and thereby gaining a tax advantage from the provisions for discontinuance of a trade (Section 130 of the Income Tax Act, 1952). The effect of the section now under review is that a trade carried on by a company (whether alone or in partnership), is not to be treated as discontinued, nor a new trade as set up and commenced, by reason of any change in the persons engaged in carrying on the trade, if at any time within two years after that change at least a three-quarters interest belongs to the same persons as held such an interest in the trade at some time within the year preceding the change. The section is not retrospective, and it only applies to companies and not to individuals carrying on a trade in partnership. The provisions of the section will apply, notwithstanding any intervening changes of interest, if the conditions laid down are satisfied at some time during the period laid down. Where the provisions of this section apply, the two trades will be treated for all income tax purposes as if they were the same trade, and as if, instead of the discontinuance, there had been a change in the persons engaged in carrying on the trade. Trading stock, will however, be valued as at the date of the change in accordance with the provisions of Section 143 of the Income Tax Act, 1952, as it would have been if there had been a discontinuance. Detailed provisions for the assessment of tax and its apportionment are contained in the Third Schedule of the Act now under review.

SECTION 18. This section implements a recommendation contained in Para. 81 of the Millard Tucker *Report of the Committee on the Taxation of Trading Profits* (Cmd. 8189) namely that " there should be a provision under which the owner of a business may carry back a loss incurred in the last year of business and set it against the assessments on that business for the three preceding years." The section now defines such a loss as a terminal loss and provides that where a trade, profession or vocation is permanently discontinued, and any person then carrying it on, either solely or in partnership has sustained such a loss, then he may claim that the amount of the terminal loss shall be deducted from or set off against his Schedule D profits or gains for the three years of assessment last preceding that in which the discontinuance occurs. Sub-section (3) of the section provides that in the case of investment holding companies, where the Schedule D income is insufficient to cover the whole of a terminal loss, relief may be claimed for the balance in respect of tax deducted at source from dividends or interest received by the company, provided that such dividends or interest would have been

taken into account as trading receipts if they had not been subject to deduction for tax at source. There are detailed provisions for determining the ownership of a trade or interest for the purposes of this section and the Fourth Schedule contains some supplementary provisions.

(to be concluded)

Recent Legal Decisions of Interest to Bankers

By C. B. Drover

IS BANKING A TRADE?

R. *v.* Industrial Disputes Tribunal and Others. *Ex parte* East Anglian Trustee Savings Bank (1954: 2 All E.R. 730)

Employees of the East Anglian Trustee Savings Bank who were members of the National Union of Bank Employees claimed the introduction of a minimum scale of salaries for male clerks recommended by the general council of the union. The Bank refused to put the recommendation into effect, and the dispute having been reported to the Minister of Labour and National Service, pursuant to the Industrial Disputes Order, 1951, he referred it to the Industrial Disputes Tribunal.

The Bank then applied for an order of prohibition against the tribunal's proceeding further in relation to the dispute, contending that the jurisdiction conferred on the tribunal extended only to disputes in a trade or industry, and not in a business of the kind carried on by the Bank.

It was HELD by a Divisional Court (Lord Goddard, C.J., Cassels and Slade JJ.) that a trustee savings bank formed under the Trustee Savings Banks Acts, 1863 to 1949, is an " undertaking " within the meaning of the Industrial Disputes Order, 1951, and that ordinarily speaking, banking is a trade.

Article 1 of the Industrial Disputes Order, 1951, provides as follows :—

> " Where a dispute exists in a trade or industry or section of a trade or industry or in an undertaking and that dispute is reported to the Minister in accordance with this order by—(i) an organisation of employers, on behalf of employers who are parties to the dispute ; (ii) an employer, where the dispute is between that employer and workers in the employment of that employer ; or (iii) a trade union on behalf of workers who are parties to the dispute . . ."

'then the Minister can refer the matter to the Industrial Disputes Tribunal, who hear it and make such order as they think fit, and that order can be made, and generally is made, a term of the contract between the employers and the workmen.'

Accordingly if the Bank were not carrying on a trade, industry or undertaking, within the meaning of that article, the tribunal would have no jurisdiction to hear the dispute. The Court were, however, under no doubt whatever that the Bank was carrying on an "undertaking," and Lord Goddard had no doubt at all, that the Bank was carrying on a trade, and that, ordinarily speaking banking was a trade. He said (2 All E.R. at p. 731) :—

> "I have also no doubt that ordinarily speaking, banking is a trade. I think the ordinary banker, whose business everyone is acquainted with, is carrying on a trade and always has been carrying on a trade since banking was set up by the Lombards and the Goldsmiths in the City of London. The old bankers never referred to their clients ; that was left to hairdressers and dressmakers. A banker in the proper way refers to his customer. So far as that is concerned, when we gave leave I did not think there was much doubt, but I thought it was worth having argument because it might be said that these trustee savings banks, which are in the nature of savings banks and are more akin to the Post Office Savings Bank, might be on a different footing, but, even if they were on a different footing as to trade, they would, in my opinion, nevertheless be an undertaking . . . Although the trustee savings bank does more than the Post Office Savings Bank, it does not carry on the business of banking in the same way as one of the big five banks, in the sense of issuing cheque books to their customers and performing various services for them, but they, nevertheless, carry on the business of banking. . . . In my opinion, therefore, although it is unnecessary to say more, as I am quite satisfied that this was an undertaking, the business conducted by the applicants was, none the less, a trade. Therefore, it seems to me that, as there is admittedly a dispute in the sense that the bank clerks, or their trade union on their behalf, are claiming that they should have an increase in wages, there is, no doubt, a dispute in the trade or industry or undertaking, and, therefore prima facie, the Minister could refer the matter to the tribunal."

TRUSTEE AND EXECUTOR—GIFT TO BANK

RE STIRLING (deceased) UNION BANK OF SCOTLAND, LTD. *v.* STIRLING AND ORS (1954 : 2 All E.R. 113 ; 1 W.L.R. 763 ; 98 Sol. J. 337)

By his will, made in 1949, the testator appointed Union Bank of Scotland, Ltd., to be his executor and trustee. The will provided that if the testator's wife should survive him by one month she should take all his property absolutely and beneficially, but that if she should not survive him, the subsequent clauses in his will should take effect. Of these Clause 4 read as follows :—

> "I bequeath the following pecuniary legacies :—(*a*) To the bank the sum of £1,000 free of duty to be paid in priority to all other legacies bequeathed by this my will with the request that it will dispose of it in accordance with any memorandum signed by me and I direct that any such memorandum is not to form part of this my will or to have any testamentary character and I request the bank that if the said legacy of £1,000 is not wholly disposed of in complying with such memorandum the balance not so disposed of shall fall into and form part of my residuary estate and I declare that the foregoing expression of my wish in connection with the said sum of £1,000 shall not create any trust or legal obligation even if the same shall be communicated to the bank in my lifetime."

Clause 5 disposed of the testator's residuary estate, and the material part read as follows :—

> ". . . as to one third share thereof to my brother the said James Fairlie Stirling absolutely as to another one third share thereof to my brother the said David Edward Stirling absolutely and as to the remaining one third share thereof to the bank with the request that it will dispose of it in accordance with any memorandum signed by me and I direct that any such memorandum is not to form part of this my will or to have any testamentary character and I declare that the foregoing expression of my wish in connection with the said one third share shall not create any trust or legal obligation even if the same shall be communicated to the bank in my lifetime."

The testator's wife died within the period of one month, and the above-mentioned clauses accordingly took effect.

The testator had made no communication of his wishes to the bank during his lifetime, but certain memoranda were found among his papers after his death.

The bank, as executor, then took out this summons to ascertain whether :

(*a*) it was entitled to the legacies beneficially unfettered by any trust or obligation : or

(*b*) it held the legacies upon trust for the residuary legatees and the testator's next of kin, respectively ; or

(*c*) it held the legacies subject to some, and if so, what, trusts.

The bank indicated its desire to dispose of the property in accordance with the memoranda.

It was HELD by Wynn-Parry J., that on the true construction of the will, the bank was absolutely and beneficially entitled to the legacies.

Although Section 9 of the Wills Act, 1837, prescribes certain formalities for the execution of a will (i.e. (*a*) that the will must be in writing ; (*b*) that it must be signed at the foot or end thereof by the testator, or by some other person in his presence and by his direction ; (*c*) that the signature must be acknowledged by the testator in the presence of two or more witnesses, present at the same time, the witnesses attesting in the presence of the testator) ; yet Equity will not permit the Wills Act to be used as an instrument for fraud. It is on this ground that Equity has for some 265 years enforced what are known as secret trusts ; that is to say, trusts which are not declared in the will itself, but are declared to the trustee in some other manner.

Secret trusts can be divided into two broad classifications ; (*a*) those where the trustee is not so designated in the will and is apparently intended to take beneficially, and (*b*) those where the trustee is so designated, the trusts themselves not being declared.

In the former case, the legatee is not bound by the trusts unless he was aware of them in the testator's lifetime. The principle is that since the person to whom the trusts have been communicated, has by his apparent acquiescence, induced the testator to make his will in that form or to refrain from altering his will, it would be against conscience that he should be allowed to profit by his fraud. This is so, even if the trusts are not in writing.

The rules are not so logical in the cases where the legatee is described as trustee in the will, without the trusts being declared. Such a person can never take beneficially, and the only question to be resolved is what are the trusts upon which he holds the property. If a memorandum is found among the testator's papers after his death, this has no effect, being regarded as a testamentary disposition which does not conform to the requirements of the Wills Act. The trustee will then hold the property upon trust for the testator's residuary legatee or next of kin. The same position also arises where the legatee apparently takes beneficially in the will, but when the testator has told the legatee that he is to be a trustee but has not declared to him the beneficiaries of the trust.

Where the testator designates a person as trustee in his will, without declaring the trusts therein, but in fact declares the trusts to the trustee, who assents, a distinction has to be drawn, though an apparently illogical one. If the trusts are declared when, or before, the will is made, the trusts are binding on the trustee. If, however, the trusts are communicated in the testator's lifetime, but after the will is made, there is authority for saying that the trusts will fail, and the trustee will hold the property upon trust for the testator's residuary legatee or next of kin. The reason apparently is that the prior declaration of trust completes the trust which is partially contained in the will. If the trust is not completed, it is tantamount to incorporating in the will a reservation of a future power to change the trusts, which would involve a power to change a testamentary disposition contrary to the Wills Act (*See Re Keen* [(1937) Ch. 236 at p. 246]).

There is a further rule, known as the doctrine of incorporation by reference, which is really quite distinct from the subject of secret trusts, and which gives effect to written memoranda not executed in accordance with the Wills Act, if: (*a*) they are in existence at the time that the will is made ; and (*b*) they are referred to in the will, as a matter to be incorporated in it.

In the case now under review if it had not been for the words in the latter part of the two relevant clauses declaring that the directions in the clauses were not to create any trust or legal obligation, it would seem (a) that the bank could not take beneficially ; and (*b*) that the memoranda could not be given effect to. In the result, the bank would have held the property upon trust for the residuary legatees in the case of the legacy of £1,000, and for the persons entitled on intestacy in the case of the gift of residue. However, on the true construction of the will, the judge decided that the testator did not intend to create any trust or cast any legal obligation on the bank, and that being so, the bank took the legacies beneficially.

October, 1954

EDUCATIONAL SECTION

Monthly Problem

The following problem arising from a simple practical banking error has been submitted by a reader from Williams Deacon's Bank in Wigan, and our usual prize of one guinea has been sent to him. A further prize of one guinea will be awarded to the reader who submits the most satisfactory solution to reach the Editor, *The Bankers' Magazine*, 85 & 86, London Wall, E.C.2, not later than October 14, 1954.

" Upon his discharge from army service in 1952, Major X opened a current account at Southtown Bank with an initial deposit of £2,000. A statement of account recording the number and amount of all cheques debited to the account was furnished by Southtown Bank to Major X regularly every month. In 1954 this customer obtained employment in Yorkshire and transferred the balance of his account to Northtown Bank, from which he borrowed up to £2,000 on overdraft, to assist in his purchase of a residence for £4,000. The deeds of this house were charged to Northtown Bank by way of legal mortgage as security for the agreed accommodation. For the time being, therefore, Major X had heavy financial commitments in relation to his salary of £1,000 per year.

Two months after the removal of his account to Northtown Bank, Major X receives a letter from Southtown Bank explaining that a cheque for £45 drawn by him in 1953 had been debited to the account of another customer with a similar name. As the error has just been discovered, Southtown Bank ask Major X to remit £45 to them to correct the position.

What is the legal position of Southtown Bank ? Major X is naturally embarrassed by this request for £45 and seeks the advice of the Manager of Northtown Bank. How would you deal with his enquiry ? "

SEPTEMBER PROBLEM

ONLY three readers attempted to solve this unusual problem, which read as follows :—

" X, Y and Z are in a similar line of business and decide to unite to form a private limited company. Before the Certificate of Incorporation is issued, X, Y and Z enter into contracts with outside parties, and use the new company's note-paper in the course of correspondence.

X, Y and Z now call in at the bank with several cheques, all payable to the new company, XYZ Limited, whose Certificate of Incorporation has still not been issued.

What attitude should the bank adopt ? Is it to collect the cheques and, if so, (i) how are they to be endorsed, (ii) what formalities should be observed when paying over to the company, duly incorporated, the proceeds of these cheques, if credited to a suspense account ? "

The best solution came from a Lloyds Bank reader in Southsea, who covered most of the points set out below, and our usual prize of one guinea has accordingly been sent to him.

It is first necessary to consider the legal principles involved in the question. A limited company does not come into existence until a certificate of incorporation has been issued in its name. This certificate cannot be issued until the memorandum and articles of the proposed company have been delivered to the registrar of companies, together with a statutory declaration by a solicitor engaged in the formation of the company, or by a person named in the articles as a director or secretary of the company, that the requirements of the Act in respect of registration and of matters precedent and incidental thereto have been complied with. (Sections 12 and 15 (2) Companies Act, 1948). When the registrar issues a certificate of incorporation it is conclusive evidence that all the requirements of the Companies Act in respect of registration have been completed. In short, it is the birth certificate of the company and in the case of a private company (such as XYZ Ltd.), it may forthwith commence business. Until the certificate is issued, however, there is in fact no company, and XYZ Ltd. has no legal entity whatsoever. The promoters, X, Y and Z, have no power to correspond in the name of XYZ Ltd. or to enter into contracts on its behalf until the certificate of registration is issued. Before that time they should act in their own names as agent or trustee for the intended company.

Nevertheless, X, Y and Z, having ignored these legal essentials, have in their possession cheques made payable to XYZ Ltd., a non-existent company, and if the bank collects the proceeds of the cheques for an account opened in the name of the limited company, it accepts the following risks :—

1. X, Y and Z may have stolen the cheques from a company already registered in that name. Their whole account of the position may be untrue, *or*
2. The company may never be registered because the promoters are for some reason unable to comply with the relative provisions of the Companies Act, 1948, *or*
3. When registered the Articles of Association may provide that the banking account of the company has to be opened at another bank. This would, however, be a most unusual feature.

If the cheques are collected and it subsequently transpires that they have been stolen, the bank can have no statutory defence against the claims of the true owners. It clearly did not collect for a customer without negligence under Section 82 of the Bills of Exchange Act. On the other hand, if the company is never registered, the withdrawal of the proceeds can be permitted only when the bank can be satisfied that the business claims of the drawers of the cheques have been fully satisfied by X, Y and Z, who must indemnify the bank suitably.

The practical solution depends upon the extent to which the bank can rely upon the promoters. What is known of X, Y and Z and are they considered jointly and severally good for the risk? If need be, an indemnity could be taken from them to cover the action of the bank. Assuming that they are reliable parties, reference should be made to their solicitor or accountant who is arranging the registration of the company. It may then be

found that the papers are about to be filed with the registrar and the issue of the required certificate of incorporation is merely a matter of days. In any event, the position can be verified and the reasons for any delay ascertained. Perhaps copies of the proposed memorandum and articles of the company can be perused in case there may be any provisions affecting the opening of the account.

If satisfied on the above points, the bank can apply the cheques to the credit of a new account opened in the name of XYZ Ltd., explaining to the promoters that the proceeds cannot be withdrawn until after registration of the company. Until then the company has no legal entity and no directors able to pass resolutions or otherwise give a valid mandate to the bank for withdrawals. The freezing of the proceeds in this manner until completion of the legal essentials will overcome all the risk outlined above. If the proceeds have not been paid away, they will be available to meet any just claim. There is little point in passing the entries through a suspense account.

It may be, however, that X, Y and Z wish to draw part of the proceeds of the cheques to implement the contracts entered into in the name of the intended company. Such a request will raise immediate enquiry from the bank concerning the initial capital of the new company. Has it been subscribed and, if so, where has it been applied ? Perhaps some of the cheques are from intending shareholders. It is certain that no withdrawals of the proceeds of the cheques should be permitted unless X, Y and Z are of undoubted standing and the bank has verified to its complete satisfaction the progress made towards registration by their qualified professional agent. If the bank is then prepared to accept the position and wishes to help the promoters, the cheques should be credited to an account opened in the joint names of X, Y and Z, with an appropriate joint and several mandate (preferably reciting the facts and indemnifying the bank) to enable cheques to be drawn against the proceeds and to authorise the transfer of any balance to the account of the new company as soon as it is registered.

In both practical solutions suggested above the cheques should be endorsed by all three promoters both " per pro " the intended company and in their personal capacities. They cannot, of course, strictly sign as directors, but they might describe themselves as agents or managers, and the collecting banker in these circumstances could confirm the endorsement.

If there is any doubt concerning the standing of X, Y and Z, or the progress made with the arrangements for formation of the company, the bank would be well advised to explain the legal position to the parties and to decline to collect the cheques until the certificate of registration is produced for inspection, together with prints of the memorandum and articles of the new company and a certified copy of the resolution of the board of directors covering the opening of the account.

Incidentally, the attention of X, Y and Z should be drawn to Section 439 of the Companies Act, 1948, which provides that, where any person or persons trade or carry on business under any name or title of which " limited " or any contraction or imitation of that word is the last word, they shall, unless duly incorporated with limited liability, be liable to a fine not exceeding five pounds for every day upon which that name or title has been used. The need to expedite the registration of XYZ Ltd. and to stop meantime dealing in its name, will therefore be apparent to all three parties.

Banker and Customer

The Collection of Cheques

Negligence (*Concluded*)

Unusual Transactions on an Account

It is now clear from this survey that a collecting banker is expected to exercise the same care and thought in the interests of the true owner of a cheque as any reasonable business man would display in dealing with his own affairs. So far the practical examples of negligence have all been founded on some fiduciary link, however remote, between the drawer or payee of the cheque and the customer applying it to the credit of his account. Although such relationship usually exists between the true owner and the thief, it by no means follows that it will always be evident to the collecting banker. It is, therefore, prudent to add the general and somewhat sweeping assertion that any transaction of an abnormal character passing through an account should be examined and enquiry made if doubt arises. Suppose Southtown Bank has a customer known to be a Post Office clerk. His account is normally fed with monthly salary payments and it carries an average credit balance of about £50, with an annual turnover of £700. If this customer suddenly starts paying in large amounts and then draws cheques payable to stockbrokers, there is a *prima facie* case for care. The cheques paid in may be beyond suspicion because they are drawn by stated executors, or known bookmakers or football pool proprietors in favour of the customer. But an investigation arising out of the abnormal transactions may disclose that the cheques received for collection were in favour of third parties, or perhaps drawn by the customer's employers. In short, transactions incompatible with the known resources and financial position of a private customer should provoke enquiry. They will usually be quite harmless, but a bank is presumed to be in close touch with its customers' financial affairs and failure to notice unusual transactions may be regarded as negligence within Section 82 if it later transpires that the customer has stolen the cheques collected by the banker for his account. Sudden changes in the nature of transactions passing through any private account may provide the initial warning that the customer is converting monies to his own use. Admittedly, no case has yet been decided against a bank on such grounds alone, but on several occasions the failure of a bank to query abnormal entries has materially helped the true owner to succeed in his action for damages. A few examples will serve to bring this lesson home to the practical banker.

In the first instance, *Lloyds Bank Ltd.* v. *The Chartered Bank of India, Australia & China* [1929] 1 K.B. 40, affords a striking example of abnormal transactions passed through the account of a bank clerk. A more salutary or homely story would be difficult to find. Lloyds Bank Ltd. employed a Mr. T. D. Lawson as chief accountant in their Bombay branch. He was a junior officer to the manager and two sub-managers in Bombay and received a salary of Rs. 1,200 per month. Lawson nevertheless kept three private accounts, one with Lloyds in Bombay, one with Lloyds in London, and one in the name of himself and his wife with the Chartered Bank in Bombay. His salary was naturally credited to his account with his employers in Bombay.

Lawson had power to draw cheques on behalf of Lloyds Bank on their account with the Imperial Bank of India in Bombay. If these cheques were for amounts in

excess of Rs. 5,000, they had to be countersigned by another official of Lloyds. In fraud, Lawson drew a crossed cheque on the Imperial Bank for Rs. 15,000 payable to the order of the Chartered Bank, and induced another official to countersign it. He then credited this cheque to his joint account at the Chartered Bank. This was the start of a series of similar frauds. Altogether he drew nineteen cheques totalling about £17,000 (actually Rs. 250,000) and misappropriated the proceeds through his joint account with the Chartered Bank. The frauds were hidden in the books of Lloyds Bank by devious means which do not concern us here, but when they were discovered and Lawson convicted and sentenced, action was brought against the Chartered Bank claiming £17,044 as damages for conversion. The defendant bank relied, *inter alia*, upon Section 131 of the Indian Negotiable Instruments Act, 1881, which is the equivalent of Section 82 of the Bills of Exchange Act, 1882.

It transpired in evidence that Lawson was a man who appeared to be possessed of substantial means. His account with the Chartered Bank disclosed several payments to stockbrokers, largely made out of the proceeds of the stolen cheques. Each credit of a stolen cheque was followed by a substantial payment to stockbrokers. In the lower Court, MacKinnon, J., found for Lloyds Bank and the decision was upheld upon appeal because the Chartered Bank failed to prove that it had acted without negligence. The following extracts from the Court of Appeal judgments show the attitude of the Court to any failure to query abnormal transactions.

" The Judge finds after careful consideration that the defendant bank failed to prove absence of negligence. He rests his judgment on the payment by Lawson of large cheques of his bank into his private account and failure to make enquiries of the manager of the plaintiff bank as to the regularity of the transaction. I agree in this finding, and would add that I think examination of Lawson's account (and I am sure that general examination of the account of every customer takes place from time to time in all well-managed banks) should have put the defendant Bank on enquiry as to the source from which these heavy payments to stockbrokers were being made in an account generally in low water except for these payments-in immediately reduced by payments-out."—per Scrutton, L.J.

" The items of negligence to which I am disposed to attach the greatest importance are : (1) The fact that the defendants knew that Lawson was an employee of the plaintiffs and was transferring these large sums of money from the plaintiff's bank to the defendants' bank, and (2) the methods by which the transfers were made. In my view, a bank cannot be held to be liable for negligence merely because they have not subjected an account to a microscopic examination. It is not to be expected that the officials of banks should also be amateur detectives. It is not easy, nor is it desirable, to define the degree of negligence which would render them liable. Many factors have to be taken into consideration, the customer, the account, and the surrounding circumstances. But, while it is difficult to draw the line, the problem upon which side of the line a particular case falls does not present such difficulties. Having regard to the uncommon nature of the cheques in question, having regard to the fact that Lawson was an employee of the plaintiffs, as was well known by the defendants, and having regard to the heavy payments made at crucial times to persons known to be brokers, I cannot come to any other conclusion than that the defendants were negligent in this case."—per Sankey, L.J.

The practical test really is whether the receipt of large sums quite beyond the known normal circumstances of the customer, coupled with the actual cheques received, place the banker upon enquiry. The point was even made in the Savory Case (which has already been discussed at length in this series) when Scrutton, L.J., stated: "The nature of the account seems to me suspicious. Perkins they knew to be a stockbrokers' clerk. Into his account were paid once, twice or thrice a month sums considerable for the size of the account, amounting in one year to over £1,000." The warning is plain. It is up to the banker to make judicious enquiry if the cheques received for collection do not speak for themselves. The manager, in effect, has to determine whether the customer has benefited under a will, backed a winning horse, been fortunate in his weekly gamble on the football pools, or is merely defrauding his employers or some other party whose funds are vulnerable. The unusual or abnormal nature of the receipts and payments through the thief's banking account may provide the first real warning, or perhaps bring to light suspicious features which have been missed earlier when the first stolen cheques were handed in for collection. The perusal by a senior branch official of unusual items passing through any private account may be onerous work, but it is amongst other things a possible insurance against the risks of conversion.

Unsatisfactory Accounts

Finally, it is necessary to emphasise that where the account of any customer is conducted in an irregular manner, the need for enquiry is more evident and the extent of such enquiry necessarily more searching. An unsatisfactory account does not in itself automatically give rise to suspicion from the standpoint of the collecting banker, but where there are circumstances of the nature already described in this series surrounding the collection of any particular cheque, a much deeper enquiry will usually be necessary than in the case of a highly satisfactory account. In other words, the banker as a reasonable business man must be more suspicious by reason of his experiences with the account. The need for much greater care and deeper enquiry in such circumstances was brought out in the relatively recent case of *Motor Traders Guarantee Corporation Ltd.* v. *Midland Bank Ltd.* [1937] 4 All. E.R. 90.

On July 1, 1936, Motor Traders Guarantee Corporation Ltd., which financed hire purchase agreements for motor cars, drew a crossed cheque on their account at Lloyds Bank, Bristol, for £189 5*s*.—in favour of Messrs. Welch & Company, motor dealers, and handed it to Mr. F. R. Turner. The endorsement of the payee was forged and the cheque then paid by Turner into his account with Midland Bank Ltd. at their Staple Hill branch in Bristol. Action was brought against Midland Bank Ltd. for damages for conversion of the cheque, and it relied on Section 82 of the Bills of Exchange Act, 1882, in defence. The cashier of the collecting bank in evidence said that when he noticed that Turner was paying-in a third party cheque he raised enquiry, and Turner told him that it was part of money due to him from Welch & Co., the payees. As the cashier was aware from the ledger that Turner and Welch & Co. had considerable business transactions in connection with motor cars, he was satisfied. At this stage, therefore, it would appear that the bank had raised enquiry and received an answer which a reasonable business man could accept. Moreover, Counsel for the bank submitted that the case was different from most of those previously dealt with by the Courts. Turner was not employed by either the drawers or the payees of the cheque. In previous cases

the collecting bank had made no enquiries, but here Turner had been asked why he was paying in the cheque and his answer was reasonable and acceptable.

Mr. Justice Goddard, in giving judgment, said that the circumstances of the case were a little unusual, for in the reported cases the question was whether the bank in the particular circumstances ought to have been put on enquiry, while here enquiry had actually been made and the question was whether it was sufficient. His mind had fluctuated during the hearing, and but for one fact his judgment would have been in favour of the bank. But during the hearing it had been disclosed that between January, 1936, when Turner's account with the defendants had been opened, and July, when this cheque was presented, Turner had had no fewer than 35 cheques returned dishonoured. Some of them had been paid subsequently, but others had never been paid at all.

When the cheque was presented the cashier asked Turner how he came by it, and if Turner's banking antecedents had been satisfactory the explanation which he gave would, in his (his Lordship's) view, have justified the defendants in crediting Turner with the cheque. The mere fact that the cashier did not obey the bank's regulations and refer the question to the manager did not of itself constitute negligence under Section 82 of the Act. Nor was there an absolute duty to enquire of the payee, or of the drawer, of a third-party cheque whether the matter was in order.

What enquiries ought to be made must depend on the particular circumstances in each case. In this case, in view of the unsatisfactory nature of Turner's banking history, the cashier should have obeyed the regulations and have referred the matter to the manager, and the manager should have made further enquiry before crediting Turner with the amount of the cheque. A manager with the knowledge of Turner's banking history would have made such further enquiry. For that reason, and for that alone, he held that the defendants had failed to discharge the onus laid on them by the section of showing that they had acted without negligence.

Thus the bank lost the case and an even higher standard of care was placed upon the already overloaded shoulders of a banker when handling cheques received for collection. The practical rule to be drawn from this unfortunate case must be, the more unsatisfactory the account the more suspicious the collecting banker should be and the deeper the enquiry to be made before acceptance of a third party cheque for collection.

Collection and Payment of Cheques by the same Bank

To complete the picture of the care expected of the collecting banker, it is perhaps prudent to mention in conclusion that, where the same bank is both collecting and paying the same cheques, it cannot if negligent and thus liable for conversion escape liability on the grounds that the cheques were paid in good faith and in the ordinary course of business within Section 60 of the Bills of Exchange Act. Where a bank is both paying and collecting a cheque, it must bring itself within both Sections 60 (or 80) and 82 of the Act to escape liability. This principle was confirmed in *The Worshipful Company of Carpenters of the City of London* v. *British Mutual Banking Co. Ltd.* [1938] 1 K.B. 511.

(This concludes our survey of the responsibilities of the banker when collecting cheques. Next month the practical problems relating to bankers' drafts will be considered).

The Lending Banker

Balance Sheets

(Continued)

The Fixed Assets

A fixed asset has already been defined for our purpose as one which is employed more or less permanently in a business as an agent of production and it has been agreed that in any financially healthy concern the cost of all the fixed assets should normally be found from capital resources. It is next necessary to decide which are the fixed assets in any balance sheet under review. The same type of asset may be a fixed asset in one balance sheet and a floating asset in another balance sheet according to the nature of each business. For example, a ship in the course of construction on the stocks will be a floating asset, part of the work-in-progress, in the balance sheet of the shipbuilder, but when it is launched and afloat at sea it will be a fixed asset in the balance sheet of the shipowners. Again, land and buildings are usually fixed assets, but in the figures of a builder engaged perhaps on estate development they will be part of his stock in trade. It is not usually difficult in practice to distinguish between a fixed and a floating asset. Moreover, in most balance sheets to-day the assets will be found grouped under their appropriate headings. Clause 4 of the Eighth Schedule to the Companies Act, 1948, demands that a limited company shall distinguish between its fixed and floating assets, classifying them under headings appropriate to the company's business, and the principle is often adopted by other business units.

In the event of failure, the fixed assets will usually be found intact, but the market available for their disposal will necessarily be limited. Furthermore, as a general principle, it must be recognised that when cash is short repairs and replacements will be postponed so that, taking the worst view, the fixed assets will usually be in a poor condition for sale by auction, when the need arises. From the banking standpoint, the best approach to the value of any asset, fixed or floating, is to decide from the information available the answers to the following three questions raised in the given order :—

1. How is the asset valued in the balance sheet ?
2. What is the current estimated worth of the asset ?
3. How much is the asset likely to realise in the remote future if it has to be sold by auction in the worst possible conditions ?

Once upon a time the balance sheet value of a fixed asset represented its worth to the business as a going concern, but with the inflationary experiences of the past decade many such assets acquired years ago may, in the absence of revaluation, still be valued at their original cost price, less depreciation, and appear in the balance sheet at a figure which is a mere fraction of their real worth to-day. It is this possible difference between the balance sheet value and real worth of suitable fixed assets which has created the opportunity for certain take-over bids which have given rise to much comment in recent years. The date of purchase of fixed assets and the basis of their balance sheet valuation must therefore be analysed in relation to the current price level. It is not ultra vires for a company to revalue any asset which has appreciated in value. In the absence of detailed information, the only prudent course will be to ignore any inflationary rise in value since the date of purchase, and to rely on the balance sheet figure as a basis for

estimating the forced sale value. This method may obviously result in a gross under-estimate of the break-up value of the given asset to the detriment of the customer's proposal, but it is not always possible to collate reliable information on the current worth of every fixed asset. The borrower's views will naturally be optimistic, whilst the practical bank manager is not normally qualified to express an opinion concerning the value of the fixed assets of a manufacturing or kindred concern. Many factors have to be weighed in the balance and the more complete the information obtained from a study of the figures and from discussions with the customer the more accurate will be the final assessment. But it is not always feasible or desirable to pry into the details. In any event, pressure of business upon the bank may not always permit of exhaustive examination. Each case must, therefore, be dealt with according to its merits. Where the advance is relatively large or the risk real, by reason of a vulnerable financial position, the bank will perhaps wish to analyse each asset in detail, but otherwise a more general estimate may suffice relying merely upon the quoted figures.

Where the balance sheet of a limited company is under review the method of arriving at the amount of any fixed asset will be clearly disclosed in keeping with Clause 5 of the Eighth Schedule of the Companies Act, 1948. If possible, a limited company must show the cost price of the fixed asset, or if it stands in the books at a valuation the amount of that valuation, and the aggregate amount provided or written-off since the date of acquisition or valuation, as the case may be, for depreciation or diminuition in value. These essentials are clearly tabulated for the fixed assets in the balance sheet of XYZ Limited (page 502 of the May issue). Unfortunately, many other balance sheets which are not subject to this statutory requirement merely quote a global amount described as the value of the asset, or sometimes a confusion of assets, " at cost less depreciation." This may not be very helpful to the bank.

The above general principles can now be applied to typical fixed assets.

1. Land and Buildings

Many points have to be considered before determining the forced sale value of this asset, which is common to most balance sheets. What is actually included in this item ? It may be perhaps a farm, a hotel, undeveloped land, factory, warehouse, office buildings, shops, a large emporium, or blocks of houses, a quarry, a hole in the ground, or a conglomeration of several of such buildings. Different methods of valuation clearly apply to such different types of property. A reasonable description of the chief properties and their situation is therefore the first requirement and, unless the properties are numerous and widespread, the best course will be for the local manager to inspect them and describe and report upon them quite apart from the balance sheet. After all, if the properties are charged to the bank or offered as fresh security, full details will be required for record and valuation purposes. As a counsel of perfection, the same principles apply in valuing the asset in the balance sheet, even though the advance is to be unsecured or supported by collateral or other security. Admittedly, it may not always be practical or desirable to collate such a complete picture and in isolated cases only is the banker likely to call for a detailed schedule from a customer, such as a brewery, retailer, large scale manufacturer, or property owner with innumerable public houses, shops, factories,

or house and office blocks, etc., as the case may be. In such circumstances a general view must usually be taken from the information in the balance sheet, and what follows is necessarily limited to cases where the borrower has only one or two main properties which can conveniently be considered apart from the balance sheet.

How much data is available at the outset? The cost price may be revealed in the balance sheet, but the date of purchase, a most important factor, is rarely shown therein. Is the land of freehold or leasehold tenure? If the deeds of the property are held in safe custody, the date of purchase and the consideration can be ascertained therefrom. In the light of these facts, if they can be obtained, the next point perhaps is to consider the adequacy or otherwise of the amounts written-off by way of depreciation since the original purchase. Does the net figure for the asset in the balance sheet represent a reasonably prudent maximum value for the property to-day? How much is it likely to realise if it has to be sold in the indefinite future at auction to a small group of most unwilling buyers gathered together in the local hotel on a cold wet day? Before venturing an opinion on this point, the local manager will probably consider, *inter alia*, the following features according to the class of property under review.

In the case of a factory, its size, age, and state of repair will first be considered. Is it a modern building with ample window space to provide natural light for the workers? Is it well-planned and suitable for many types of industry or capable of conversion without undue expense to meet the requirements of a buyer producing a different product? The ease, or otherwise, with which it might be converted to another use is an important factor. If the borrower fails, it may be that there is a surfeit of supply of his goods in the market and a competitive producer is unlikely to require more factory space. Any potential buyers will, therefore, usually be engaged in a different business and they will consider the alternatives available to them. It may be cheaper and more satisfactory to buy land and erect a new factory thereon, planned to meet their precise needs, than to buy the existing factory and spend a considerable sum on alterations. The more adaptable the building the larger will be the market in the event of a forced sale, whilst the greatest difficulty will be experienced in finding a buyer for a specialised factory. Spacious bays and large areas of floor space can be adapted or divided as required with little expense, but it would be costly to break down a conglomeration of small rooms in a large factory building to provide space for mass production on a belt system. The situation of the factory has next to be considered in relation to rail and roads for transport of raw materials inwards and finished goods outwards. Its position in relation to the labour supply is also important. A factory sited in the middle of, or near to, housing areas has few labour difficulties, but where it is remote from the houses of the workers their transport presents a problem and may entail more running expenses than can be justified by the purchase of a factory at a lower price than one could be bought in a populated region. The current transport and labour experiences of the customer will be a guide in this respect.

The site value may be material irrespective of the size, age and state of repair of the factory itself. The worth of the building may be perhaps rapidly depreciating owing to wear and tear, but the land on which it stands may be steadily appreciating in value for future development. All these, and probably other factors have to be weighed in the balance to decide what market might be available in the event of failure of the owner.

The final estimate must from experience be based on the most pessimistic view. It is far safer to undervalue than to suffer in later years the penalties of undue optimism. In normal times it is surprisingly difficult to find a buyer for the more modern and well situated factory buildings, and the branch manager with little experience in such matters cannot expect to be accurate, particularly where he has to rely upon incomplete data. It follows that he must err freely on the side of caution and estimate a final figure which is beyond doubt the lowest which could be expected in the very worst possible conditions. It must be emphasised that the banker is not here attempting to assess the current worth of the factory. When available, a professional valuation is a useful guide, but it will usually quote the worth of the building at the given date if sold by treaty. The forced sale price in the event of trouble in the future will necessarily be much lower and prudence demands a heavy discount of the current value.

Precisely the same principles apply to other types of buildings, although the actual valuation may be based on different considerations. In the case of a hotel, its situation in relation to demand and local amenities will be important and its size will be quoted according to the number of bedrooms available for letting. Agricultural land will be valued according to its acreage and quality, whilst office buildings or investment properties may be valued according to floor space and net yield, in addition to their state of repair and situation. It is impossible here to enter into a full description of the methods that can be adopted in valuing different types of properties. The point is that the land and buildings should, wherever possible, be considered apart from the balance sheet and valued for this purpose on a forced sale basis, erring always on the pessimistic side. If no details of the asset are available, an estimate has to be made from the information disclosed in the balance sheet, but the figure so taken clearly cannot be as reliable as one based on actual facts.

Having decided the value, two further points demand consideration. Firstly, are the buildings insured for at least the break-up value against the risk of loss by fire, etc. ? The bank may not be entitled to hold the policy, but it is prudent in many cases to verify the extent of the insurance cover. Secondly, it is necessary to determine whether the property or any part of it has been charged as security to any creditor. In the case of a limited company balance sheet, the initial warning will be evident from the note which has to be made against any liability of the company which is secured otherwise than by the operation of law, and the details can soon be ascertained by a search at Bush House. If the estimated break-up value exceeds the total secured liability, there will be a surplus available from the property for the preferential and unsecured creditors, but where the value is considered to be less than the amount owing to the secured creditor, the entire proceeds will be swallowed up and that creditor will rank *pari passu* with the other unsecured creditors for the balance unpaid. These principles apply to all assets which are charged in any fashion to secure liabilities. The reader is invited to assess the value of the freehold factory and land belonging to XYZ Ltd., attention being drawn to the fact that it has been mortgaged according to the balance sheet to secure a loan of £5,000.

Plant and Machinery

The next fixed asset which is common to manufacturing concerns will have much less value in the event of a forced sale because it is peculiar to the business under review. The possible market must be considered in relation to the general age and type of the

machinery. It may have been heavily depreciated since the date of purchase, but the fact remains that, in these days of rapid progress, modern inventions and changed production methods may soon render plant valueless except as scrap. Moreover, the choice available to any buyer at auction must be considered. At best, if the machinery is up-to-date and in good repair, it will have to be taken down, transported to the buyer's place of business, and reassembled with considerable labour costs thus added to the purchase price. It may be cheaper to buy new machinery direct from the manufacturer, who will deliver and assemble it free of charge and often furnish a guarantee to cover the running of the plant for a limited period. The market for the second-hand machinery may be further limited because it is suitable only for the same type of business, and there will probably be a general depression in that trade when the customer fails. Estimates will probably vary according to the type of business of the borrower, but the above points suffice to show that the balance sheet figure must be heavily depreciated. The plant and machinery of XYZ Limited may well be worth £9,000 to the business as a going concern to-day, but it would be worth only a mere fraction of this figure if the company went into liquidation in say 1957. Probably, with cash shortages in the months and years prior to failure, the machinery will be in the poorest condition and will attract few buyers other than scrap merchants. This is the only safe method even though the customer may assure the banker that the plant to-day is worth much more than the balance sheet figure. It is important to remember that if the buildings are mortgaged any plant fixed to the premises is attached by the mortgagee. Another point to watch is whether any of the plant is subject to a hire purchase contract, in which case the hire purchase creditor will be entitled to the proceeds of sale, to the extent of the amount remaining unpaid.

Loose Tools

Sometimes this asset appears under a separate heading in the balance sheet. Loose tools are not often valued in the same way as other fixed assets, because depreciation by ordinary methods is impracticable. They will usually be valued by an official of the company and their forced sale value, whilst dependent to a certain extent on the factors which were considered above for machinery, will be much lower as they will probably be sold by auction in job lots. In fact, unless the item is comparatively large, it can prudently be ignored.

Fixtures and Fittings

However attractive and valuable the furniture and fittings may appear to be to the lender when visiting the office or works of the customer, they can be worth little at auction if they have to be uprooted, carted away, altered, set-up and polished by the buyer. They will not fit another office without alteration and the expense of removal may be considerable. In short, they are worth very little when it comes to an alteration or sale of the premises. If the property is leasehold, some of the fixtures may become the property of the freeholder at the expiration of the lease. On the other hand, there is a much wider market for furniture, which is movable, and if the balance sheet under review is that of a hotel or kindred business and the furniture is known to be in good condition, the forced sale value will be proportionately higher.

(In other words, comparatively little has been collected to date from the forced sale value of the assets other than from the property itself. Next month the remainder of the fixed assets will be analysed.)

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October, 1954

Banking Appointments, etc.

AUSTRALIA AND NEW ZEALAND BANK LIMITED

Georges and Mango Avenues, Rabaul, New Guinea.	Mr. T. M. Nicholson to be Manager.

BARCLAYS BANK LIMITED

Mr. F. C. Woodward, a General Managers' Assistant, has been appointed an Assistant General Manager.

Mr. A. S. Bates, a Joint Manager, Trustee Department, Chief Office, has been appointed an Assistant General Manager.

Hayes, Kent . . .	Mr. W. J. W. Meekings to be Manager.
Hendon, West . . .	Mr. P. E. Griffiths, from Acton, to be Manager.
Kenton Park Parade . .	Mr. R. Pinner to be Manager
Morden	Mr. W. H. White, Managerial Relief Staff, London District, to be Manager.
Wimbledon, Hill Road .	Mr. J. H. Graham, from Minories, to be Manager.
Altrincham and Bowdon, Hale and West Timperley.	Mr. G. Aspinall, from Todmorden, to be Manager.
Chard	Mr. A. V. Redway, from Sidmouth, to be Manager.
Kirkby-in-Ashfield . .	Mr. E. W. Darrington, from Alfreton Road, Nottingham, to be Manager.
Loughborough . . .	Mr. J. Cockerill, from Gallowtree Gate, Leicester, to be Manager.
Merthyr Tydfil and Treharris.	Mr. D. C. T. Davies, Manager of Tonypandy and Tonyrefail Branches, to be Manager.
Selby	Mr. D. B. Hastings, from Mansion House, York, to be Manager.
Tonypandy and Tonyrefail.	Mr. J. W. Graham, from Treharris, to be Manager.
Winsford	Mr. S. C. Worsley, from Northwich, to be Manager.
Head Office, Trustee Department.	Mr. W. S. Gladstone to be Assistant Manager at Manchester.

BARCLAYS BANK (DOMINION, COLONIAL AND OVERSEAS).—Mr. J. C. D. Cox has been appointed special representative in the Midlands with an office in Birmingham. His special function will be to give advice and help concerning all banking matters affecting the overseas territories where the bank is established.

BARCLAYS OVERSEAS DEVELOPMENT CORPORATION LIMITED.—Mr. A. E. Ambrose, to be Manager and Mr. G. W. Lambert to be Assistant Manager and Secretary.

COMMERCIAL BANK OF SCOTLAND LIMITED.—Lord Rotherwick of Tylney, deputy-governor, has been appointed governor. Lord Saltoun, an extra-ordinary director, has been appointed deputy-governor and Lord Erskine has become an extra-ordinary director.

DISTRICT BANK LIMITED

Mr. J. F. Hornbrook to be Secretary.

Manchester and Salford, Pendleton.	Mr. Norman Martlew, from Wigan, to be Manager.

THE EASTERN BANK LIMITED.—Mr. Gerald L. Tyler, from Head Office, London, to be Sub-Manager and Accountant.

THE FUJI BANK LIMITED.—Mr. Masao Nitani has been appointed Resident Director and Manager in London.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT.—Mr. John Duncan Miller, the former Washington correspondent of *The Times*, has been appointed Director of Public Relations for Europe.

LLOYDS BANK LIMITED

Head Office, Advance Department . . .	Mr. A. C. King to be a Controller. Mr. S. S. Westover, from Westminster House, S.W., to be an Assistant Controller.
Chief Inspector's Department.	Mr. C. Collins, from Knightsbridge, S.W., to be an Inspector.
Head Office	Mr. A. R. H. Combes, from Piccadilly, W., and Mr. B. H. Piper, formerly of Finsbury Circus, E.C., have been appointed for Special Work under the General Managers.
Executor and Trustee Department: Chief Office.	Mr. F. W. Holder to be Investment Supervisor.
Executor and Trustee Department.	Mr. W. Abbiss, of Threadneedle Street to be Assistant Investment Supervisor.
Borough Road, Burton-on-Trent.	Mr. F. J. M. Garner, from Burton-on-Trent, to be Manager.
Burton-on-Trent. . .	Mr. A. J. Glendon, of the Inspection Staff, to be Sub-Manager.
Chester.	Mr. R. Aethwy-Jones, from Pwllheli, to be Sub-Manager.
Desborough Road, High Wycombe.	Mr. L. H. W. Bailey, from Tamworth, to be Manager.
Dorking	Mr. D. W. L. Fellows, from Desborough Road, High Wycombe, to be Manager.
Enfield	Mr. P. E. Smith, from Minories, E.C., to be Manager.
Henleaze, Bristol. . .	Mr. W. H. Hodgson, from Luton, to be Manager.
Heswall	Mr. A. Henderson, from Exchange, Liverpool, to be Manager.
Knightsbridge, S.W. . .	Mr. T. H. M. Sedgley, formerly Senior Instructor, Training Centre, to be Assistant Manager.
Minories, E.C. . . .	Mr. H. H. G. Raynham, from 399, Oxford Street, W., to be Manager.
Neath	Mr. E. O. L. Vaughan, from Head Office, to be Manager.
Peckham, S.E. . . .	Mr. D. A. Brignall, from 81, Edgware Road, W., to be Manager.
Piccadilly, W. . . .	Mr. M. T. Burnside, from Pall Mall, S.W., to be Sub-Manager.
Spilsby	Mr. P. Fenton, from Louth, to be Manager.

MARTINS BANK LIMITED

Bexley Heath . . .	Mr. S. A. Mitchell, from Fenchurch Street, to be Manager.
Birmingham Five Ways .	Mr. M. Hollway, from Nottingham, to be Manager.
Bournemouth . . .	Mr. G. H. Ritchie, from Bexley Heath, to be Manager.
Brighouse	Mr. E. Hinchcliffe, from Hull, to be Manager.
Halifax	Mr. F. A. A. Beresford, from Vicar Lane, Leeds, to be Manager.
Leeds, Vicar Lane . .	Mr. M. Mattocks, from Canning Place, Liverpool, to be Manager.
Liverpool, Canning Place .	Mr. F. W. Cowan, from Scotland Road, to be Manager.
Liverpool, Scotland Road .	Mr. N. Grimley, from Waterloo, to be Manager.
Liverpool, West Derby .	Mr. R. Hughes, from Newport, to be Manager.
London, Fenchurch Street	Mr. E. J. A. Salmon, from 68, Lombard Street Office, to be Assistant Manager.
London, 41A, South Audley Street, London, W.1.	Mr. G. K. Turner, from Curzon Street, to be Manager.
Sedbergh	Mr. D. W. Adam, from Neston, Birkenhead, to be Manager.

MIDLAND BANK LIMITED

Head Office	Mr. Bernard Frank Clarke, an Assistant General Manager, to be a Joint General Manager. Miss M. Moorhouse to be Lady Staff Superintendent and Welfare Officer.
Betws-y-Coed . . .	Mr. E. A. Jones to be Manager.
Bourne	Mr. I. M. Williams to be Manager.
East Twickenham . .	Mr. R. C. Priest to be Manager.
Edgware, Burnt Oak . .	Mr. A. A. Walker to be Manager.
Hayes (Middlesex) . .	Mr. A. C. Preston to be Manager.

Lampeter	Mr. D. B. Jenkins to be Manager.
Malvern	Mr. N. Pulley to be Manager.
Pershore	Mr. A. H. Jackson to be Manager.
Upton-on-Severn . .	Mr. J. S. Jones to be Manager.

Midland Bank Executor & Trustee Co. Limited

Head Office	Mr. E. L. Hammond, from Leeds, to be an Assistant General Manager.
Leeds	Mr. H. C. Kendall to be Manager.
Hull	Mr. C. L. Grisdale to be Manager.
Preston	Mr. S. Malcolm to be Manager.

The Mitsubishi Bank Limited.—Mr. Kyojiro Jyanaga has been appointed London Representative.

National Bank of Australasia Limited.—Mr. David A. Jamieson, V.C., has accepted an invitation to join the bank's London Board of Advice.

National Provincial Bank Limited

Princes Street Office . .	Mr. L. H. S. A. G. Warren, from Holborn Circus, to be Manager's Assistant.
Bromley	Mr. E. G. Whitby, from South Croydon, to be Manager.
South Croydon . . .	Mr. J. F. Eaton, from Brixton, to be Manager.
Launceston	Mr. J. E. Bridge, from Tavistock, to be Manager.
North Tawton . . .	Mr. G. D. Tyrer, from South Molton, to be Manager.
Penzance	Mr. W. L. Morton, from Redruth, to be Manager.
Rhyl	Mr. M. Roberts, from Beaumaris, to be Manager.
High Street, Sheffield .	Mr. L. F. Brown, to be Assistant Manager.
Meersbrook, Sheffield .	Mr. W. A. Geddes, from Mansfield, to be Manager.
Tavistock	Mr. H. B. Symons, from North Tawton, to be Manager.
Torquay	Mr. L. F. Stone, from Penzance, to be Manager.
West Hartlepool . . .	Mr. J. H. Whitelaw, from High Street, Sheffield, to be Manager.
To be an Inspector of Branches	Mr. J. B. Ferguson, from Hull.

Royal Bank of Scotland

Head Office	Mr. David Mason to be Cash Keeper, with authority to sign " pro General Manager."
Jedburgh	Mr. James Littlejohn Milne, from Leven, to be Manager.

Standard Bank of South Africa Limited.—Mr. Leif Egeland to be a member of the South African Board.

The Union Bank of Scotland Limited

Blackhall, Edinburgh . .	Mr. Robert Ramage Alexander to be Manager.

Westminster Bank Limited

Head Office	Mr. C. J. Harvey, from Sutton, Surrey and Carshalton Beeches to be an Inspector of Branches.
	Mr. N. Hilton, from College Road, Great Crosby and Blundellsands, to be an Inspector of Branches.
	Mr. H. K. Demaine, attached to the Joint General Manager's Department, Northern Control, to be a Controller's Assistant.
Clapham	Mr. D. W. Ramm, from Gloucester Road, to be Manager.
College Road, Great Crosby and Blundellsands.	Mr. P. E. Forshaw, from Kirkby, near Liverpool, to be Manager.

Cricklewood	Mr. R. C. Tilley to be Manager.
Doncaster	Mr. T. S. Smith to be Assistant Manager.
Gloucester Road . . .	Mr. R. H. Webb, from South Kensington, to be Manager.
Hackney	Mr. C. A. Cole, from Stoke Newington, to be Manager.
Manchester Trustee Branch	Mr. L. A. Vigurs, from Brighton Trustee Branch to be Manager.
South Kensington Trustee Branch (New Branch).	Mr. M. H. Parkin, from Manchester Trustee Branch to be Manager.
Stoke Newington . .	Mr. K. R. Hedger to be Manager.
Sutton, Surrey and Carshalton Beeches.	Mr. G. H. Maslin to be Manager.

WILLIAMS DEACON'S BANK LIMITED.—Mr. A. E. Noakes, from London Office, to be an Assistant General Manager. Mr. J. C. Gillies to be Manager. Mr. R. J. Mott to be Inspector, London branches.

New Branches, etc.

AUSTRALIA AND NEW ZEALAND BANK LIMITED.—At corner of Georges and Mango Avenues, Rabaul, New Guinea.

BANK OF NEW SOUTH WALES.—At Box Hill, (Melbourne) Victoria ; Caringbah, New South Wales ; and Wakefield & Hanson Streets, (Adelaide) S. Australia.

BARCLAYS BANK (DOMINION, COLONIAL AND OVERSEAS). With the approval of the stockholders and the Board of Trade the bank's name has been shortened to Barclays Bank D.C.O.—A Representative's Office was opened at 14–17, Bennetts Hill, Shell-B.P. House, Birmingham, 2.

THE FUJI BANK LIMITED.—New premises at Salisbury House, Finsbury Circus, London, E.C.2.

LLOYDS BANK LIMITED.—Executor and Trustee Department, Chelmsford (67, London Road, Chelmsford, Essex) ; Boreham Wood (129, Shenley Road, Boreham Wood, Herts). To be a Clerk-in-Charge Branch under the supervision of the Edgware Manager ; Hainault (171, Manford Way, Chigwell, Essex). To be a Clerk-in-Charge Branch under the supervision of the Gants Hill Manager.

Sub-Branch Opened—Taunton Market (Sub. to Taunton), Attendance Tuesday from 10 till 2 ; Thursday from 11 till 3 ; Saturday from 10 till 12.

Other Changes—Durdham Down (Sub to Henleaze, Bristol), 1, North View, Westbury Park, Bristol 6. Now a Clerk-in-Charge Branch under the supervision of the Henleaze Manager ; Feltham (Sub to Hounslow). Attendance is now daily from 10 till 3 ; Saturday from 9.30 till 12 ; Jesmond Road (Sub to Osborne Road, Newcastle-upon-Tyne), 269, Jesmond Road, Newcastle-upon-Tyne, 2. Now a Clerk-in-Charge Branch under the supervision of the Osborne Road Manager. Lydd (Sub to New Romney). Attendance is now Monday to Thursday from 10 till 1 ; Friday from 10 till 2 ; Nottingham Branches, Sneinton and Netherfield, formerly Sub-Branches to Nottingham, are now Sub-Branches to Carlton Street, Nottingham ; Station Road (Sub to Taunton). Attendance is now daily from 10 till 2.30 ; Saturday from 10 till 12.

MARTINS BANK LIMITED.—Birmingham, Five Ways, 140–141, Broad Street, Birmingham, 15 ; 41A, South Audley Street, London, W.1.

MIDLAND BANK LIMITED.—At Upton-on-Severn (formerly under the Management of Pershore branch).

THE NATIONAL BANK OF AUSTRALASIA LIMITED.—At Nowra and Goulburn, New South Wales ; and (receiving offices) at Blackburn South, East Balwyn and Norlane, Victoria ; and Everton Park, Barra and Oxley, Queensland. Branches have been established at South Grafton, New South Wales ; and West Brunswick, Victoria (formerly receiving offices).

WESTMINSTER BANK LIMITED.—A Trustee Branch at South Kensington.

October, 1954

100 Years Ago

From *The Bankers' Magazine* of October, 1854

POSITION AND PROSPECTS OF THE MONEY-MARKET

There are some considerations connected with the position and prospects of the money-market, to which it may not be inopportune at this moment to draw attention. At the termination of an abundant harvest, with a general abandonment of speculation, and a steady influx of remittances, it is natural to look for a decline in the rate of discount. Usually these antecedents determine a favourable reaction, and under such circumstances it is frequently of a decided character. At present, however, exceptional causes are at work, which will, in all probability, delay any important change for some little time to come . . .

The abundance of the harvest throughout the United Kingdom, the fine weather, to the close of September, having been all that could be desired to facilitate agricultural operations, and the immediate effect it has produced upon the price of bread, leave the fact unquestioned that we may anticipate moderate, if not cheap quotations, for one of the prime necessaries of life. The expenditure for a large import of food will be saved, and instead of our purchasing in other markets, any surplus that we may be enabled to spare will readily be taken for foreign consumption . . .

The war with Russia—although our successes against the Czar evidence the futility of his resisting the combined forces of England and France—has unfortunately entailed an outlay which, however much it deserves commendation on the double ground of philanthropy, and the preservation of the balance of power in the East, cannot fail to maintain taxation at a high rate, and if peace shall be speedily secured, its effects will not be so easily counteracted. It is in conjunction with this part of the question that the advantages of an abundant harvest derive their principal consideration, for doubtful indeed would the situation of all classes have been had even a partial scarcity ensued. The infliction of a war expenditure, however rightful the cause, followed by a dearth of provisions and a necessary import at high prices, would have produced consequences the most disastrous to contemplate. The avoidance of a catastrophe so alarming in its character, should therefore create deep thankfulness and ameliorate the feeling of mortification roused by the reflection that but for the despotic sway of one individual, the full measure of this abundance would have been enjoyed . . .

But while acknowledging the important services contributed by an abundant harvest to a country suffering from a war expenditure, there are other considerations to be taken into account, as calculated to influence its prospective financial situation. Whenever hostilities may be entered upon between powerful nations, whose productions and manufactures constitute a valuable commercial intercourse, or when a trade with distant colonies or possessions may have been inflated beyond prudent limits, the collapse occasioned by the one or the other event—or, as it is in our own case, by both—must be attended with considerable sacrifices. Business, sound though it may be in the aggregate cannot withstand a protracted interruption such as has recently been witnessed, and escape wholly free from injury. Considering the great extension experienced within the last three years it is remarkable that not more mischief has occurred, and yet we have nearly passed through an Australian reaction and an American railway panic. With the latter, fortunately, Great Britain has not had so much to do as with the former, but the whole of the losses in that instance, it is feared, have not been finally reckoned . . .

Monetary Review

IN contrast with conditions during the greater part of August, credit supplies last month were almost continuously short of requirements. The market had the benefit during the opening days of September of a large distribution of Government interest, with £29 million representing repayment of the unconverted portion of the National Defence loan. As usual, these disbursements were offset by the authorities in their credit management operations, and had no visible effect on money supplies. Funds were in ample supply on some days, but for the most part the discount houses experienced difficulty in filling their daily credit needs, and occasionally paid up to 3 per cent. for overnight loans.

On more than one occasion early in the month, the market was almost " in the Bank " and was only saved by extensive official buying of bills. This special assistance was not forthcoming in sufficient volume on September 15, and quite a number of firms were forced to obtain accommodation from the Bank, although the total involved was not large.

	Floating Money	Market Rates—Bank Bills: Three Months	Four Months	Six Months	Bank Rate	Date of last Alteration
	%	%	%	%	%	
Aug. 21, 1954 . . .	1¼–1⅜	1⅝	1⅝–1 11/16	1¾	3	May 13, 1954
Sept. 23, 1954 . . .	1¼–1⅝	1 21/32	1 21/32–1 11/16	1¾–1 13/16	3	
Movement		+ 1/32	+ 1/64	+ 1/32		

As the above table shows, tight conditions in the short loan market were reflected in a further upward adjustment of the discount houses' rates for buying bills. The rates at which the banks were prepared to take Treasury Bills from the market were also raised. Early in September the rate for November bills was 1 9/16 per cent. with the market showing some resistance to attempts to charge 1 19/32. Later in the month, however, the banks were able to secure some November-December bills at 1 21/32 when credit conditions were at their worst.

The rise in discount rates followed the result of the Treasury bill tender of September 10, when the discount houses cut their tender price by 2*d.* to £99 11*s.* 9*d.* per cent., and the average rate of allotment rose to over 1⅝ per cent. for the first time since early in June. The main factor in the rise in the allotment rate was undoubtedly the tightness of money. Indeed in view of the subsequent borrowing at the Bank the market showed some prescience in cutting its tender price. As in the previous month, the weakness of sterling against the dollar in the foreign exchange market, and the rise to over 1 per cent. in the U.S. Treasury bill rate, were partly accountable for firmer bill rates in London.

While the volume of bills on offer was increased, competition for them was less keen, with the result that the market obtained larger allotments, the ratio to applications rising to 63 per cent. on September 17. The amounts offered exceeded maturities each week, and during the whole of the month involved new Treasury borrowing on tender bills of nearly £100 million.

TREASURY BILLS

Date 1954	*Bills Offered £ (000's omitted)	Bills Applied for £ (000's omitted)	Average Rate % s.	d.	Date 1954	*Bills Offered £ (000's omitted)	Bills Applied for £ (000's omitted)	Average Rate % s.	d.
Jan. 29	220,000	381,975	41	11·04	June 4	270,000‡	414,325	32	11·61
Feb. 5	220,000	386,430	41	3·68	,, 11	260,000†	418,325	32	3·56
,, 12	230,000	369,925	41	4·04	,, 18	260,000†	400,440	31	7·57
,, 19	240,000	398,900	41	3,56	,, 25	260,000	426,015	32	1·48
,, 26	250,000	400,765	41	3·37	July 2	270,000	383,955	32	3·41
Mar. 5	270,000	412,905	41	3·83	,, 9	270,000‡	396,195	31	3·09
,, 12	270,000	414,560	42	2·61	,, 16	240,000	433,145	31	2·27
,, 19	260,000	365,575	42	3·64	,, 23	230,000	423,055	31	2.52
,, 26	270,000	405,205	42	3·62	,, 30	240,000	414,220	31	2·8
Apr. 2	270,000	399,040	42	4·01	Aug. 6	240,000	397,585	31	3·09
,, 9	270,000	392,195	42	4·05	,, 13	250,000	387,485	31	10·56
,, 15	230,000	417,175	41	7·41	,, 20	260,000	398,245	32	2·66
,, 23	230,000	415,375	41	7·34	,, 27	260,000	422,715	32	3·19
,, 30	230,000	437,545	40	11·36	Sept. 3	270,000	398,625	32	4 02
May 7	240,000	405,615	40	10·84	,, 10	270,000	397,830	32	10·75
,, 14	260,000	391,695	34	1·75	,, 17	280,000	402,545	32	11·74
,, 21	270,000	400,655	34	3·24	,, 24	280,000	427,990	32	3·86
,, 27	270,000	426,825	34	3·33					

be taken up during following week. ‡ Under-allotted by £20 million. † Under-allotted by £10 million.

The seasonal return of currency from circulation proceeded at very much the same pace as a year ago, although, of course, the Bank's active note circulation is much larger than at that time. As a result of the reduced note requirements, the banking department reserve increased further, and the fiduciary note issue, which had already been reduced by £50 million in August, was cut at the beginning of last month by a further £25 million, bringing it back to £1,675 million. Reflecting the stringency of credit in the money market, bankers' balance have appeared in recent returns at the low level of under £270 million, but recovered to over £280 million on September 15, the day on which the discount market was forced to borrow from the Bank.

Stock market activity was maintained at a high level, but quotations in general failed to go ahead with the persistence previously shown. The lack of further pronounced rises was attributed to the international problems created by the French rejection of E.D.C., the risk of serious fighting in the Formosa area, and the weakness of the dollar exchange. In addition, of course, markets had been rendered vulnerable by the previous prolonged advance. British Government securities were distinctly quieter, and easier for choice, although showing no decided weakness. This market may have been feeling the effect of large new issues of investment securities, and the prospect of further competition from that quarter.

Business in industrials was well maintained, and prices continued to respond to favourable dividend and profit statements by individual companies. Stores shares, in particular, were in demand early in the month, but the consistent rise in this section and the high level of retail trade has attracted a considerable speculative following and led to bouts of profit taking from time to time. There was a further sharp advance in South African gold mining shares, inspired partly by the rise in the London price of gold to over 250s. per ounce as a result of the weakness of sterling.

With the stock market background still reasonably favourable, new issue activity continued on a fair scale. The largest issue to the general public was £4 million of East Africa High Commission 4 per cent. stock, 1973–76 at par, an additional £500,000 of this stock being reserved for subscription in East Africa and a further £500,000 being taken up for Colonial Government funds. This issue, which is the second to be made by East Africa since the beginning of the year, was over-subscribed, and the stock was quoted at around par when stock exchange dealings opened. Another issue of first importance was the £20 million of Imperial Tobacco 4 per cent. unsecured loan stock

1975–80, at par, but this issue, like the great majority of attractive industrial prior charges offered nowadays, was available only to holders of the company's existing securities.

RENEWED RISE IN BANK DEPOSITS

The London clearing banks' statements for August was notable for a renewed expansion of deposits, which is in keeping with the present high level of economic activity. The increase in gross deposits on the month was £52.7 million, while net deposits rose by £35.4 million, and Lloyds Bank index of net deposits, which allows for seasonal variations, was 1.2 points higher at 110.4. Compared with the figures for August 1953, net deposits have increased by £238.2 million, but the expansion of under 4 per cent. on the year does not give much indication of inflationary pressure when placed against the rise in industrial activity during the past twelve months as indicated in the latest available official figures.

(Figures in £1,000,000)

	Deposits, &c. £	Net Deposits £	Cash and at Bank £	p.c. to Deposits	Money at call, &c. £	Discounts Treasury Bills £	Discounts Other Bills £	Investments £	Advances £
August, 1954 . .	6,518·8	6,279·4	533·5	8·2	437·8	1,126·8	82·6	2,348·0	1,829·0
July, 1954 . .	6,466·1	6,244·0	533·8	8·3	427·9	1.091·1	93·9	2,350·7	1,823·5
June, 1954 . .	6,533·2	6,233·9	531·3	8·1	454·5	1,079·9	90·2	2.311·4	1,837·0
May, 1954 . .	6,335·2	6,104·4	500·6	7·9	463·1	1,033·9	87·9	2,304·7	1,793·3
April, 1954 . .	6.377·5	6,088·5	534·6	8·4	489·2	999·8	88·3	2,279·0	1,772·1
March, 1954 . .	6,243·2	6,009·9	511·9	8·2	467·7	995·1	83·2	2,269·4	1,760·2
February, 1954 .	6,237·1	6,010·0	504·5	8·1	453·6	1,034·0	79·2	2,274·9	1,740·6
January, 1954 . .	6,456·6	6,232·1	526·0	8·2	482·6	1,254·0	76·4	2,277·1	1,694·7
December, 1953 .	6,694·2	6,307.2	541·9	8·1	500·7	1,338·2	79·0	2,275·2	1,706·8
November, 1953 .	6,418·6	6,193·7	520·3	8·1	469·2	1,299·6	54·8	2,245·1	1,676·0
October, 1953 . .	6,373·3	6.155·6	518·4	8·1	475·1	1,286·7	53·1	2,238·1	1,654·0
September, 1953 .	6,319·6	6,095·1	515·0	8·2	475·5	1,322·0	53·8	2,136·9	1,662·3
August, 1953 . .	6,240·1	6,041·2	510·7	8·2	456·1	1,275·5	55·2	2,139·7	1,676·4
July, 1953 . .	6.246·9	6,013·7	510·5	8·2	460·2	1,183·8	60·6	2,140·2	1,730·0

Changes among the banks' assets between July and August show that in this period, as in most previous months, the rise in deposits was the result of additional Government borrowing from the banking system. Aggregate holdings of Treasury bills were £35.7 million up at £1,126.8 million—their highest since January last—while call money increased by £9.9 million. Nevertheless, Government reliance on the banks since the beginning of the current financial year has been a good deal less than in the same period of 1953, thanks to a contraction in the overall budget deficit to date, a better showing from national savings, and larger net investment in tax reserve certificates. The banks' holdings of British Government securities were slightly reduced following their sharp rise in previous months, but advances were £5.5 million higher. The advances item is always influenced by the borrowing and repayment of the nationalised electricity and gas industries.

The quarterly analysis of advances compiled by the British Bankers' Association shows that an increase of £40.1 million between May and August to £1,930.5 million in advances by all member banks, was due entirely to an addition to loans to " Public Utilities (other than Transport) "—which means the nationalised utilities.

Although the £100 million British Electricity loan came too late in August to affect the clearing banks' figures (made up to August 18) repayments of electricity advances from the application money and the first call on the new stock will doubtless have their effect on the banking figures for September. A disappointing movement in the August figures was a sharp decline of £11.3 million in the combined holding of commercial bills, which are now at their lowest since February.

Stock Exchange Values

THE movement of stock exchange values during the past few weeks suggests that the recent general advance, which has continued for many months, is for the moment becoming more difficult to sustain. Each rise during the period covered by our usual statistics was followed by a reaction, leaving prices with irregular changes on the month. Investment stocks in general were governed by the uncertain tendency of British Government securities, which were much less active than in the preceding month, buyers being rendered cautious by the uncertainties of the European political situation and possibilities of serious trouble in the Far East. The adverse movement of the New York exchange rate also contributed to the hesitancy of gilt-edged stocks, although the decline in sterling is generally believed to be a purely seasonable phenomenon. There was again a good turnover in industrial equity shares, and most of the leaders improved moderately, but some sections, including the shares of stores companies, were subject at times to bouts of profit taking, part of the earlier buying having been of a speculative character. Rand gold shares staged a fresh advance early in September, but here, too, the higher prices were not held.

Aggregate value of 365 representative securities on August 14, 1954 . . .	£6,933,544,000
,, ,, ,, 365 ,, ,, ,, September 15, 1954 . .	£6,911,011,000
Decrease .	£22,533,000

OUR INDEX NUMBER

Below will be found the movements in the index number of the security values of our list of 365 representative stocks from the year 1929 down to the present time. Limitations of space have made it necessary to omit each month our lengthy list of variations in the fixed and variable dividend securities over a period of years, but once a year (in the January issue) we give the complete list of the index numbers of those stocks. The total index number for September, was 124·5, as compared with 124·8 for the previous month. The index number of the fixed interest group now stands at 118·9, as compared with 119·7 for the previous month, and in the variable dividend list the index number is 135·9, compared with 135·4 for the previous month.

SECURITY VALUES INDEX NUMBER
(*December, 1921 = 100)

Year	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1929 .	129·6	128·1	127·3	127·3	125·6	125·4	126·5	127·0	127·3	126·1	120·9	121·0
1930 .	121·7	121·8	123·3	124·2	121·9	119·0	120·3	118·1	119·3	117·6	116·8	114·4
1931 .	114·9	112·6	114·1	111·9	108·0	108 6	109·3	104·3	99·0	103·1	103·1	98 5
1932 .	110·9	101·7	105·5	102·1	101·8	100·6	105·5	108·4	111·4	112·5	109·6	109·4
1933 .	110·2	111·1	111·2	112·4	112·5	114·3	115·9	117·6	118·7	118·4	117·6	117·6
1934 .	120·4	121·5	122·9	123·8	122·6	121·8	122·5	122·3	122·8	123·6	126·9	126·5
1935 .	128·5	125·8	123·7	124·9	125·8	125·5	126·4	125·8	120·6	121·3	125·5	126·4
1936 .	128·1	129 6	128·6	130·2	129·1	128·8	129·4	131·0	131·7	133·9	133·8	133·1
1937 .	132·6	129·7	128·4	128·2	127·3	125·6	125·1	125 0	123·0	121·6	121·0	121·2
1938 .	121·6	120·7	115·9	119·2	117·0	116·3	118·9	117·7	113·8	114·2	114·4	112 4
1939 .	112 0	111·7	110·0	107·1	110·0	109·8	108·8	107·4	103·2	106·3	108·7	108·7
1940 .	112·2	114·3	114·6	114·1	110·4	104·6	106·0	107·8	108·2	110·0	111·3	112·0
1941 .	113·6	112·8	112·9	112·4	113·3	113·5	115·6	116·0	117·5	117·1	117·8	117·1
1942 .	118·5	117·0	117·0	117·3	117·2	117·5	118·1	118·2	119·0	120·4	129·0	120 6
1943 .	122·7	122·5	122·7	123·3	122·3	122·1	123·3	123·0	123·1	123·4	122·6	122·7
1944 .	123·3	123·8	123·6	123·5	123·8	124·5	125·0	125·1	124·6	124·9	125·3	125 5
1945 .	126·1	126·1	126·3	127·1	126·6	126·4	127·1	126·1	126·3	127·0	127·2	126·8
1946 .	128·3	128·9	128 3	130·1	131·7	132·1	132·2	131·4	130·4	130·0	132·1	133 2
1947 .	133·8	132·3	132·2	131·3	132·0	131·3	131·0	125·2	123·7	125·0	125·6	127 9
1948 .	128·8	127·6	126 8	127·5	128·2	128·0	126·9	127·0	127·1	127·3	127·6	127·5
1949 .	128·0	128·1	126·7	126·6	126·5	124·1	122·1	119·8	119·9	120·3	117·7	119 8
1950 .	119·1	119·0	118·8	119·5	119·7	121·4	119·9	120 0	122·3	123·8	124·0	122·2
1951 .	123·6	123·6	122·8	122·4	123·0	122·3	121·1	120·5	120·8	121·3	119·7	115·9
1952 .	115·4	114·7	111·6	112·9	113·1	110·2	110·3	110·7	113·7	112·6	112·0	113·0
1953 .	113·5	113·9	114·9	115·1	114·6	115·2	114·9	115·6	115·7	116·9	118·1	117 5
1954 .	117·8	118·9	119·2	120·7	121·5	120·9	123·3	124·8	124·5			

* Date when Securities revised.

October, 1954

TABLE—SHOWING VALUES OF SECURITIES AND THEIR AGGREGATE VARIATION DURING THE PAST MONTH

[000's omitted]

Nominal Amount (Par Value)	Department, containing	Market Values Aug. 14, 1954	Market Values Sept. 15, 1954	Change on the Month	Increase or Decrease Per Cent.
£		£	£	£	
3,566,600	10 British and Indian Funds	3,413,778	3,385,462	— 28,316	— 0·8
58,950	9 Corporation (U.K.) Stocks	51,873	51,892	+ 19	+ 0·0
83,550	8 Colonial Government Stocks	77,869	77,977	+ 108	+ 0·2
22,300	8 Corporation Stocks (Colonial)	19,789	19,873	+ 84	+ 0·4
21,050	7 Do. do. (Foreign)	18,606	18,442	— 164	— 0·9
598,230	26 Foreign Government Stocks	216,722	215,655	— 1,067	— 0·5
254,655	6 British Railway Debenture Stks.	‡301,278	‡301,278	..	..
310,765	6 Do. do. Preference Stks.	‡247,161	‡247,161	..	..
132,000	7 United States Bonds (Gold) †	†141,662	†141,662	..	..
5,048,100	**87 Fixed Interest Stocks**	**4,488,738**	**4,459,402**	**— 29,336**	**0·7**
315,325	13 British Railway Ordinary Stocks	‡72,406	‡72,406	..	..
18,900	5 Indian Railway Stocks	26,621	26,614	— 7	— 0·0
88,350	5 Colonial Railways	121,423	121,204	— 219	— 0·2
474,000	11 United States Railway Shares	296,745	296,751	+ 6	+ 0·0
141,200	20 Foreign Railways	27,752	27,760	+ 8	+ 0·0
59,685	13 British Bank Shares	211,255	210,881	— 374	0·2
43,000	18 Colonial and Foreign Bank Shs.	71,566	72,512	+ 946	+ 1·3
18,121	10 Brewery Stocks	66,792	67,907	+ 1,115	+ 1·7
17,750	7 Canals and Docks	22,614	22,614	..	..
146,916	38 Commercial and Industrial Shs.	606,227	610,810	+ 4,583	+ 0·8
9,537	8 Electric Lighting and Power	‡21,592	‡21,592	..	..
15,100	9 Financial, Land and Investment Shares	31,909	31,474	— 435	— 1·4
30,680	7 Gas Stocks	‡27,895	‡27,895	..	..
9,343	17 Insurance Shares	248,649	247,862	— 787	— 0·3
58,294	14 Iron, Coal and Steel Shares	105,544	105,938	+ 394	+ 0·4
3,100	5 Nitrate Shares	641	620	— 21	3·3
42,649	10 Oil Shares	196,153	195,053	— 1,100	0·6
5,402	9 Rubber Shares	2,292	2,277	— 15	0·7
17,456	5 Shipping Shares	28,432	29,923	+ 1,491	+ 5·3
1,890	6 Tea Shares	5,786	5,981	+ 195	+ 3·4
20,808	9 Telegraphs and Telephones	56,778	56,914	+ 136	+ 0·2
27,716	7 Tramways and Omnibus	44,793	44,828	35	+ 0·1
29,517	19 South African Mines	94,627	95,387	+ 760	+ 0·8
28,735	6 Copper Mining Shares	46,209	46,110	— 99	0·2
11,859	7 Miscellaneous Mining Shares	10,105	10,296	+ 191	+ 1·9
1,635,333	**278 Variable Dividend Securities**	**2,444,806**	**2,451,609**	**+ 6,803**	**+ 0·3**
6,683,433	**365 Grand totals**	**6,933,544**	**6,911,011**	**— 22,533**	**— 0.3**

† Designation of gold bonds retained though title apparently unwarranted.

‡ Entered at vesting prices.

BANKERS' MAGAZINE SHARE LIST

BANKS

Last Dividend Actual	Total for Year	Total for Previous Year	NAME	Quotations Aug. 16, 1954	Quotations Sept. 15, 1954
1/6	—	5/	Alexanders Discount Co. Ltd. (£2, with £1 paid)	6⅛	5¼
1/2⅜	2/4¾	2/4⅜	Do. do. 6% Cum. Pref. (£2)	47/6	47/6
9¾d.	--	2/	Australia and New Zealand Bank (£2, with £1 paid)	38/	36/6
1/‡	—	1/9¾‡	Bank of Adelaide Stock	30/	32/6
5/7½	8/	8/	Bank of British West Africa Ltd. (£10, with £4 paid)	8⅝	8½
£6	—	£15	Bank of Ireland Stock	—	—
2/	—	6/	Bank of London & S. America Ltd. Stock	5¾	5¼xd
30 cents	—	$1·40	Bank of Montreal (*London Register*) ($10)	£17¼xd	£15
9/‡	—	34/‡	Bank of New South Wales (*London Register*) (£20)	31¼xd	31½
40 cents	---	$1·80	Bank of Nova Scotia (*London Register*) ($10)	£17¾	£18
1/4½	2/7½	2/4⅜	Bank of Scotland (Governor & Co. of) Stock	67/	68/
9⅜d.	--	1/7½	Barclays Bank (Dom., Col. & Overseas) "A" Stock	45/	44/6
1/	—	—	Barclays Bank Ltd., Ord. Stock	49/6	47/
1/1½	1/1½	—	British Bank of the Middle East (£10)	28/	28/6
30 cents	—	$1·20	Canadian Bank of Commerce (*London Register*) ($10)	£15¼	£15½
1/4⅜	2/9⅜	16/**	Chartered Bank of India, Australia & China, Stock	42/6	44/
6d.‡	1/‡	1/‡	Commercial Bank of Australia Ltd. Ordinary (*London Register*) (10/)	17/	16/
2‡	4‡	4‡	Commercial Bank of Australia Ltd. 4% Pref. (*London Register*) (£10)	6	6¼
5·76d.	—	11·52d.	Commercial Bank of Scotland Ltd., "A" Shares (£1, with 6/ paid)	24/6	25/6
1/	·	2/	Commercial Bank of Scotland Ltd., "B" Shares (£1)	44/6	44/6
2/	---	4/	District Bank Ltd., "A" Shares (£5, with £1 paid)	91/6	94/
1/	--	2/	Do. do. "B" Shares (£1)	45/	45/
2/		4/	Do. do. "C" Shares (£1)	96/	97/
3/	- -	8/	Eastern Bank Ltd. (£10, with £5 paid)	9	9⅜
2/	—	7/6	English, Scottish & Australian Bank Ltd. (£5, with £3 paid)	6 3/16	5 15/16
6/3	8/9	7/6	Hambros Bank Ltd. (£10, with £2½ paid)	8½	8½
7½d.	1/2⅝	1/2⅝	Do. do. "A" Shares (£1)	23/	23/6
£2	--	£5	Hongkong & Shanghai Banking Corp. (*London Register*) ($125)	£99½	£98
4/	4/	4/	Ionian Bank Ltd. (£5)	65/	77/6
1/4½	---	2/9⅜	Lloyds Bank Ltd., "A" Shares (£5, with £1 paid)	64/6	63/6
6d.		1/	Do. do. "B" Stock (£1)	24/6	25/
4/4½	- -	8/9	Martins Bank Ltd. (£20, with £2½ paid)	10½	10⅜
1/9	--	3/6	Do. do. (£1)	92/	89/
---	- -		Mercantile Bank of India Ltd., "A" Shares (£5, with £2½ pd.)	--	5
17/6	—	35/	Do. do. do. "B" Shares (£5, with £2½ pd.)	—	5
7/	·	14/	Do. do. do. "C" Shares	—	42/6
4/		8/	Midland Bank Ltd. (£12, with £2½ paid)	9½	9⅜
4/	-	8/	Do. do. (£2½)	9⅞	9⅞
1/7⅛		3/2⅜	Do. do. (£1)	82/6	83/
1/	--	2/2⅜	National Bank Ltd. (£5, with £1 paid)	40/	40/
40psts	—	200psts	National Bank of Egypt (Bearer) (£E10)	24½	25½
10½d	—	40/	National Bank of India Ltd. (£1, with 12/6 paid)	27/6	26/
3/6	5/	4/	National Bank of New Zealand Ltd (£7½, with £2½ paid)	100/	101/6
1/	--	2/	National Discount Co. Ltd., "A" Stock	42/	42/
1/	- -	2/	Do. do. "B" Stock	49/	49/
1/2·28	---	2/4·56	National Provincial Bank Ltd., "A" Shares (£5, with 14/ paid)	58/	58/
1/8	·	3/4½	Do. do. do. "B" Shares (£5, with £1 paid)	82/6	79/
1/8¼	---	3/4½	Do. do. do. Shares (£1)	87/	86/
8/	8/	8/	Ottoman Bank (Bearer) (£20, with £10 paid)	8	8½
35 cents	—	$1·40	Royal Bank of Canada ($10)	£16½	£16
1/9½	--	3/7⅛	Royal Bank of Scotland, Stock	5⅛	4⅞
1/3	2/3	2/3	Standard Bank of South Africa Ltd. (£2, with £1 paid)	42/	42/
1/	·	2/	Union Discount Co. of London, Ltd., Stock	52/	55/
2/	·	3/7½	Westminster Bank Ltd. (£4, with £1 paid)	89/	92/
1/3	---	2/6	Do. do. Stock	63/	60/6

	Aug. 16, 1954	Sept. 15, 1954
*Bank-Insurance Units	27/7½	27/4½
*Bank-Units	27/2¾xd	27/0¾
*Scottish Bank I. & I. T. Units (Scotbits)	36/6	36/10½
*Investment-Trust-Units	36/6	37/10½

* These prices include stamp duty and commission.
† Free of Income Tax.
‡ Australian currency.
‖ None on offer.
xd.—Ex Dividend.
** For £5 stock. Now quoted in £1 units.

BANKERS' MAGAZINE SHARE LIST

INSURANCE

Last Dividend Actual	Total for Year	Total for Previous Year	NAME	Quotations Aug. 16, 1954	Quotations Sept. 15, 1954
14/	24/	22/	Alliance Assurance Co. Ltd. (£20, with £2½ paid)	36	35½
14/	24/	22/	Do. do. New Shares (£1)	38	37½
8/	15/	15/	Atlas Assurance Co. Ltd. (£1, with 10/ paid)	4¼	3¾
1/7½†	—	7/6†	Britannic Assurance Co. Ltd., Ord. Stock	6¼ xd	6¼
2½	5	5	Do. do. 5% tax-free, Cum. Pref. Stock	33/	33/
2/6	—	4/6	Caledonian Insurance Co. (£1, with 10/ paid)	7	6⅞
6/6	11/6	10	Commercial Union Assurance Co. Ltd., Stock	78/6	87/6
3/3	5/	4/6	Eagle Star Insurance Co. Ltd., Ordinary (10/)	6 [illegible]	6¼
3/3	5/	4/6	Do. do. Ordinary (£3, with 10/ paid) .	111 3	5 [illegible]
4½d.	9½d.	9½d.	Do. do. 4% Cum. Pref. (£1)	18/6	18/6
4½d.	9½d.	9½d.	Do. do. 4% 2nd Cum. Pref. (£1) ..	18/6	18/6
1/	1/7½	1/7½	Economic Insurance Co. Ltd. (£1, with 5/ paid)	32/6	32/6
3/	4/6	4/6	Employers' Liability Assurance Corp. Ltd.	5 [illegible]	5 [illegible]
2/6†	—	5/†	Equity & Law Life Assurance Soc. (£5, with £1½ paid) ..	13½	14¾
4/	6/	6	General Accident, Fire & Life Assurance Corp., Ord. (£1) ..	9½	9¼
6d.	1/	1/	General Accident, Fire & Life Assurance Corp., Cum. 5% Pref. (£1)	22/6	22/6
3/6	6/	5/	Guardian Assurance Co. Ltd., Ord. (£1)	9¼	9
2/	—	4/	Do. do. do. Pref. (£5% non-Cum.) (£4) ..	83/6	84/6
4/3	6/9	6/9	Legal & General Assurance Soc. Ltd. (£1, with 5/ paid) ..	15½	15
3/	4/6	4/	Licenses & General Insce. Co. Ltd., Ord. (£1, with 10/ paid)	6¼	6¼
2	—	4	Liverpool & London Globe Insce. Co. Ltd., 4% Perp. Deb. Stk.	94½	94½
3/3	6/6	6/	London & Lancashire Ins. Co. Ltd., Stock	8½	8¾
11/†	11/†	10/†	London & Manchester Assce. Co. Ltd. (£1)	23½	23½
13/9	20/	18/9	London Assurance, Ord. (£2½)	30½	30
4½d.	9½d.	9½d.	Do. do. 4% Cum. Pref. (£1)	18/	18/
5/	—	10	North British & Mercantile Insce. Co. Ltd., Ord. (£1¼) ..	14¾	15¾
2	4	4	Do. do. do. do. 4% Pref. Stock (Non-Cum.)	90½	90½
11/6	20/	18/	Northern Assurance Co. Ltd., Ord. (£10, with £1 paid) ..	34	35
14/4·209	18/10·209	17/0·716	Do. do. Participating Pref. (£7½) ..	27	29½
4/	—	12/[illegible]	Pearl Assurance Co. Ltd., Ord. (£1)	22¼	22¼xd
7½d.	1/2½	1/2½	Do. do. 6% (Tax free), Cum. Pref. (£1) ..	37/6	37/6
8/6	—	17	Phœnix Assurance Co. Ltd. (£10, with £1 paid)	25	23½
8/6	—	17/	Do. do. (£1)	24¼	23½
2/3½	2/3½	2/3	Planet Assurance Co. Ltd., Ord. (£1, with 10/ paid)	60	60/
1/	—	2/	Provincial Insurance Co. Ltd., 10% Cum. Pref. (£1)	37/6	37/6
6d.	—	1/	Do. do. do. 25% Cum. Pref. (4/)	20/6	20/6
15/†	—	21/†	Prudential Assurance Co. Ltd., "A" Shares (£1)	44½	44¼
2/6†	2/6†	2/[illegible]	Do. do. do. "B" shares (£1, with 4/ paid)	6 [illegible]	6½
3/	3/	2/6	Reinsurance Corp. Ltd. (£1, with 12/6 paid)	83/[illegible]	88/9
6/	10/	10/	Royal Exchange Assurance, Stock	8¼	8½
5/9	11/	10/	Royal Insurance Co. Ltd., Stock	16¼	17¼
4/		7	Scottish Union & National Ins. Co., "A" Shares (£10, with £1 paid)	11½	10¾
15/		26/3	Scottish Union & National Ins. Co., "B" Shares (£5, with £3½ paid)	38½	38½
3/	5/	5	Sea Insurance Co. Ltd. (£1)	6½	6½
2/10	5/	5/	Sun Insurance Office Ltd. (£1, with 10/ paid)	7½	6⅞
1/9†	—	3/6†	Sun Life Assurance Society (£1)	10½	10⅛
1/	1/	1	Victory Insurance Co. Ltd., Ord. (16/ with 6/ paid)	48/9	46/3
2/	2/	1/10½	World Auxiliary Insce. Corp. Ltd. (£1, with 10/ paid) ..	45	45
4/9	8/	8/	Yorkshire Insurance Co. Ltd. (£2½, with 10/ paid) .. .	13½	13½
9/6	16/	16/	Do. do. (£1)	27½	26

*Insurance-Units	29/10½	29/5½
*Conbits	18/6	18/7½

* These prices include stamp duty and commission.
† Free of Income Tax.
xd.—Ex Dividend.

Bank Reports, Meetings, etc.

THE COMMERCIAL BANK OF AUSTRALIA LIMITED

THE net profits for the year ended June 30, 1954, amount to £500,221. 10*s.*; to which is added amount brought forward, £179,782. 0*s.* 4*d.*; making a total of £680,003. 10*s.* 4*d.*; from this amount the directors have made the following appropriations, viz.:—To reduction of bank premises, £135,000; interim dividend on preference stock at 2 per cent. paid February, 1954, in Australian currency, £42,347; interim dividend on ordinary stock at 5 per cent. paid February, 1954, in Australian currency, £100,000; interim dividend, calculated from due date of instalment of capital, on new issue ordinary shares at 5 per cent. paid February, 1954, in Australian currency, £21,030. 1*s.* 4*d.*—£298,377. 1*s.* 4*d.*; leaving a balance of £381,626. 9*s.*; which it is proposed to apportion as follows:—To final dividend on preference stock at 2 per cent. in Australian currency, £42,347; final dividend on ordinary stock at 5 per cent. in Australian currency, £100,000; final dividend, calculated on instalments of capital due on new issue ordinary stock at 5 per cent. in Australian currency, £47,120. 5*s*; carry forward to next year, £192,159. 5*s.*—£381,626. 9*s.*

Balance Sheet as at June 30, 1954
(expressed in Australian currency)

LIABILITIES

Authorised capital—300,000 preference shares of £10 each, £3,000,000; 14,000,000 ordinary shares of 10*s.* each, £7,000,000—£10,000,000.			
Issued and fully paid capital—			
211,735 preference stock units of £10 per unit	£2,117,350	0	0
6,105,868 ordinary stock units of 10*s.* per unit	3,052,934	0	0
Paid-up capital	£5,170,284	0	0
Reserve fund (used in the business of the bank)	3,000,000	0	0
Final dividends proposed payable, August, 1954	189,467	5	0
Balance of profit and loss account	192,159	4	0
Total stockholders' funds	£8,551,910	9	0
Deposits, bills payable and other liabilities, including provisions for taxation and contingencies	185,435,597	5	7
Notes in circulation	5,102	0	0
Balances due to other banks	436,189	17	11
Amount due to subsidiary company	100	0	0
	£194,428,899	12	6
Contingent liabilities (as per contra in regard to obligations of customers and others on letters of credit, drafts, guarantees, etc.)	9,686,002	18	4
	£204,114,902	10	10

ASSETS

Coin, bullion, Australian and Reserve Bank of New Zealand notes and cash at bankers	£12,337,889	0	2
Cheques and bills of other banks	7,966,376	7	0
Balances with and due from other banks	262,825	11	0
Money at short call in London	187,500	0	0
Treasury bills—Australian Government	6,500,000	0	0
Public securities (at or under market value)—Australian Government, £12,421,502. 13*s.* 5*d.*; other government, £1,312,517. 8*s.* 0*d.*; local and semi-governmental authorities, £116,796. 0*s.* 10*d.*	13,850,816	2	3
Special account with Commonwealth Bank of Australia	35,648,000	0	0
Bills receivable and remittances in transit	15,113,497	14	2
Stamps	108,192	14	1
	£91,975,097	8	8
Loans, advances and bills discounted (after deducting provision for debts considered bad or doubtful)	99,052,262	3	5
Bank premises, furniture and sites (at cost, *less* amounts written off)	3,401,440	0	5
Shares in wholly-owned subsidiary company (at cost). (The subsidiary company has not traded at any time, and has made neither profit nor loss; its only asset is a deposit of £100 with this bank).	100	0	0
	£194,428,899	12	6
Liabilities of customers and others on letters of credit, drafts, guarantees, etc., as per contra	9,686,002	18	4
	£204,114,902	10	10

Report of Proceedings at the Eighty-Eighth Ordinary General Meeting of Stockholders held at the Offices of the Bank at Melbourne on Thursday, August 19, 1954, at 12 noon.

Mr. W. S. Reid, Chairman of Directors, presided.

The General Manager, Mr. Edward Cook, read the Notice convening the Meeting.

The Minutes of the last Ordinary General Meeting were read and confirmed.

It was decided to take the Report and Balance Sheet as read.

THE CHAIRMAN'S ADDRESS WAS AS FOLLOWS :—

Ladies and Gentlemen,

I should first like to apologise for the absence from the Meeting of Mr. S. T. Edwards, one of your Directors, at present overseas.

The last Annual Meeting of Stockholders took place in the Coronation year of our beloved Queen Elizabeth II, and since that time we in Australia and New Zealand have been honoured to welcome the Queen and the Duke of Edinburgh to our shores. The opportunity to express their loyalty and affection was eagerly accepted by Her Majesty's Australian and New Zealand subjects and the many benefits derived by the British Commonwealth from the Royal visit will long endure.

STOCKHOLDERS' FUNDS

I mentioned briefly last year that the new issue of Ordinary Shares had been successfully floated. All instalments have since been duly received. Nominal Capital is now £10,000,000, Subscribed and Paid-up Capital being £5,170,284. Premiums on the New Issue totalling £750,000 have been credited to Reserve Fund, which now stands at £3,000,000.

Total Stockholders' Funds have increased from £6,689,479 to £8,551,910 during the year.

It is of interest to note that the Bank's Stock is now held by 12,627 holders throughout Australia, New Zealand and the United Kingdom, and that the average Capital holding is £409 per Stockholder.

Net Profit, £500,221, increased by £78,876, and is equivalent to 5·85 per cent. of Stockholders' Funds. Gross earnings, £5,843,751, rose by £754,424, but the major portion of this increase was absorbed by higher salaries, taxation and general costs of conducting the growing business.

The higher Net Profit justified your Directors' anticipations that dividends could be maintained on the increased Capital.

Interim Dividends of 2 per cent. on Preference and 5 per cent. on Ordinary Stock were declared, and your Directors now recommend payment of Final Dividends at the same rates, making 4 per cent. on Preference Stock and 10 per cent. on Ordinary Stock for the year, dividends on the New Issue Shares being calculated proportionately from due dates of instalments.

Stockholders will be pleased to notice that the total Assets in the Balance Sheet, £204,114,902, increased by £12,495,966, exceeding £200,000,000 for the first time in the history of the Bank.

You will also have noticed the improved method of presentation of the Report and Balance Sheet recently circulated to Stockholders.

The corresponding figures for the previous year have been included in this year's accounts for ease of comparison, and I do not propose to review orally the detailed figures, or traverse the review of Seasonal Conditions and Primary Industries. I ask you to accept them as read.

BALANCE SHEET

Deposits, Bills Payable and other Liabilities, £185,435,597, were higher by £8,152,825, indicating the improved general conditions in Australia and New Zealand and the steady level of overseas funds.

Coin, Bullion, Australian and Reserve Bank of New Zealand Notes, and Cash at Bankers, £12,337,889, decreased by £4,975,095, while Money at Short Call in London, £187,500, was lower by £1,562,500.

These movements were largely offset by increases in Cheques and Bills of Other Banks, £7,966,376, which were £3,519,159 higher, and Treasury Bills, £6,500,000, which increased £2,500,000.

Public Securities, £13,850,816, were lower by £4,240,042, due to increased overdraft requirements of customers. Further calls by the Central Bank during the year brought the Statutory Special Account with Commonwealth Bank to the substantial total of £35,648,000.

Bills Receivable and Remittances in Transit, £15,113,498, rose by £2,344,269, reflecting the higher trends of both external and internal trade.

Total Liquid Assets, £91,975,097, declined slightly by £1,193,298, but still stand at the high figure of 49·48 per cent. of Liabilities to the Public, indicating the Bank's ability to meet its customers' requirements for fluctuating accommodation within the policies desired by the Central Banks in both Australia and New Zealand.

Loans, Advances, and Bills Discounted, £99,052,262, rose by £11,663,827 as a result of demands for overdraft accommodation to sustain the higher level of production throughout the Commonwealth.

Bank Premises, Furniture and Sites, £3,401,440, decreased by £42,651, after writing off £135,000 from Profits, compared with £125,000 the previous year. Premises continue to be acquired and enlarged to accommodate the Bank's expanding business.

SEASONAL CONDITIONS

Conditions are generally satisfactory over most of Australia and again indicate the probability of a good season for primary producers.

All States are enjoying promising conditions although a sub-soil soaking rain is desired in the drier areas and cold weather is retarding growth. Given satisfactory rain later in the year the position of producers in the agricultural and pastoral areas will be further consolidated.

Severe flooding occurred during the year in the coastal districts of New South Wales and Queensland with heavy loss of stock and damage to property.

WOOL

Production of wool totalled 3,804,278 bales from 123,100,000 sheep, being a reduction of 47,000 bales upon the previous year's record clip. Prices remained stable on a high level throughout the year, the total proceeds of wool exported reaching A£412,242,000 compared with A£403,216,000 for 1952-53.

Forecasts of world production and consumption of wool indicate that demand is still strong and satisfactory prices seem likely during the coming season. Synthetics have increased in volume and diversity, but the prevailing trend appears to be towards blending with the natural fibre to produce newer and cheaper fabrics.

WHEAT

Our overseas trade balance has been adversely affected by a reduction in the amount of wheat exported due to declining overseas prices and restricted markets. Undue stocks have been accumulated and the authorities are spending considerable money in erecting bulk storages. It is estimated that, at the end of this year, surplus carry-over will approximate 2,000,000 tons, worth at present prices about £40,000,000.

The price of wheat on the world market has been held at a level sufficiently high to permit countries outside the International Wheat Agreement to produce and sell wheat to a considerable extent at the expense of Australia. Shipments from the United States, Canada and Australia have declined in somewhat similar proportions, while exports from Argentine, Turkey and other countries have increased substantially.

The area sown to wheat in 1953-54—10,691,000 acres—increased slightly for the first time since 1947-48, but the average yield per acre declined from last year's record of 19·1 bushels to 18·6 bushels. The crop totalled 199,000,000 bushels, being 3,800,000 bushels greater than the previous year.

DAIRY PRODUCE

Seasonal conditions were again satisfactory and butter production declined only slightly from 163,500 tons to 157,000 tons, while cheese production rose from 46,800 tons to 49,000 tons.

Butter exports decreased from 49,000 tons to 38,000 tons, while cheese exports remained steady at 22,000 tons.

Australian costs of production are higher than New Zealand and Continental countries and the industry will need to be alert to retain its share of the valuable British market.

MEAT

Total of all meat produced was 1,200,000 tons, valued at £207,500,000, compared with £186,700,000 from 1,246,200 tons for 1952-53. Exports earnings declined from £56,000,000 to £49,000,000.

SUGAR

Production of sugar in 1953-54 reached the record total of 1,253,000 tons, exceeding the previous season's yield by 32 per cent., or 305,000 tons.

Exports rose from 464,000 tons to 720,000 tons and the proceeds from £19,000,000 to £30,000,000.

DRIED FRUITS

The position in regard to dried fruits is causing concern as sales of high-level stocks in London are proving to be slow. Assistance will need to be extended to the industry to ensure that by improving methods and reducing costs it retains its share of the overseas market.

NEW ZEALAND

New Zealand has enjoyed a prosperous year and living standards generally have never been higher. Business is buoyant while demand for labour exceeds supply. The building industry continues active with materials more readily available, while major public works of a developmental nature are showing rapid progress.

An improvement in both the number of bales sold and the price realised increased the wool cheque by approximately 10 per cent. to N.Z.£66,000,000 ; but dry conditions experienced early in the year in the North Island occasioned a sharp decline in dairy production.

Exports for the 12 months ended March 31, 1954, totalled N.Z.£240,000,000, an increase of N.Z.£13,000,000, while imports remained virtually unchanged at N.Z.£201,000,000.

STAFF

Once again it is my pleasure to express on behalf of the Stockholders their appreciation of the manner in which all grades of the Staff have continued to carry out their responsibilities. The results of the loyal and capable performance of their duties are exemplified in the Statements before the Meeting to-day.

BANKING POLICY

The Bank has played an important part in removing unemployment and restoring the Nation's economy to its present buoyant position. Rising industrial production has called for increased overdraft accommodation and we have been able to assist customers engaged in many industries so vital to a sound National economy.

Last year your attention was drawn to what, in our view, were then seen as the shortcomings of the banking legislation introduced in 1953 by the Commonwealth Government. It was suggested that the control exercised through Special Account procedure would need to be wisely administered if the banking system was to retain that degree of flexibility essential to the changing needs of an expanding economy such as Australia's. The operations of the past year have confirmed our views as then expressed. The immobilising of such a large percentage of deposits has a hampering effect on an economy requiring greater freedom in the development of both its natural and technical resources. Australia lags behind other countries in freeing itself from the shackles of controls imposed during a time of National emergency and now totally unsuited to a virile and progressive way of life.

It is becoming increasingly evident that some modification in the Special Account system is necessary to ensure that a more reasonable limit is placed upon the proportion of a Bank's Deposits that may be frozen by arbitrary action. The Banks must be permitted sufficient freedom and flexibility to plan for the future on progressive lines if Australia is to maintain a sound economy on a basis of steady expansion.

The attempt to nationalise the Trading Banks was soundly defeated by the people because they clearly realised the advantages of a competitive banking system which they expect to be fair and equitable to all concerned in the industry.

PRODUCTION COSTS

The main fears about the Australian economy centre upon the high level of production costs. There can be no doubt that Australian costs are substantially above those ruling in most of the highly industrialised countries. This situation is fraught with danger and has already led to loss of markets.

Since the war labour costs, as measured by average hourly earnings for male workers, have increased by 62 per cent. in the United Kingdom and by 73 per cent. in the United States. In Australia the rise has been 156 per cent. No economy could sustain a disparity of this nature and remain competitive with other countries.

Promising opportunities for building up an export outlet in various manufactured lines have had to be abandoned. Primary products such as some canned goods, processed foods and butter are threatened with loss of markets to lower-priced overseas production or to substitutes. Were it not for import restrictions or heavy tariff protection some Australian industries might find it impossible to retain a reasonable share of the home market. At present and prospective levels of export income it seems doubtful whether we would be able to balance our overseas accounts without the help of import restrictions. The difficulty of achieving a balance of payments, even under the buoyant condition of export trade over the last two years, is evidence of an excessive level of internal costs.

There is considerable pressure for increased wage " margins " to workers, and while it may be justified in the case of skilled workers carrying high qualifications and responsibilities, we should be careful to refrain from any action that would throw the economy further out of balance by adding to the high cost burden which industry is already forced to carry. To find a solution to this difficult dilemma is the perplexing task confronting industrial tribunals at the moment. If the principle of increased margins

were to be applied to all workers in receipt of payments above the basic wage, the effect on industrial costs and on economic balance would be extremely serious. For a long period we have been seeking some measure of stability in costs and prices. We cannot afford now to jeopardise a position so recently and arduously won. A general increase in Australian wage costs would in the end benefit no one if it meant that industries producing for the home market could not compete and that export production was priced out of markets abroad.

ECONOMIC CONDITIONS

The confidence evident in industry generally at this time last year has been fully justified and the improvement in trade and production has continued throughout the current year. Due to Government policy with material assistance from the Banks, production in both primary and secondary industries has been maintained at satisfactory levels and unemployment has been removed.

Exports declined by slightly less than 5 per cent. from A£871,000,000 to A£830,000,000 while imports increased from A£514,000,000 to A£681,000,000. The favourable trade balance was accordingly reduced from A£357,000,000 to A£149,000,000 but Australia's overseas funds remained at a satisfactory total of approximately A£550,000,000 at June 30 last.

Discovery of oil in Western Australia and of extensive uranium deposits in Central and Northern Australia are welcome developments. The benefits to be derived from location of commercial quantities of oil are of such potential value that no effort is now being spared by further search in likely areas.

Stability in the economy has been achieved and we must now concentrate upon the problem of reducing costs to make industry competitive with overseas countries.

I have much pleasure in moving the adoption of the Report and Balance Sheet.

The motion was seconded by Mr. R. G. R. Bell and carried unanimously.

Two retiring Directors, Mr. C. F. Meares and Mr. S. T. Edwards, had given due notice of their candidature and there being no other nominations were declared re-elected.

Messrs. Ernest Fookes and W. S. Philip, Chartered Accountants (Australia), were re-appointed Auditors.

A cordial vote of thanks to the Directors, the General Manager and the Staff was moved by Mr. J. H. Picken, seconded by Mr. A. J. C. Bult, and acknowledged by the Chairman and the General Manager.

The Chairman thanked the stockholders for their attendance and announced that the dividend would be payable on and after August 20, 1954.

The meeting then terminated.

THE COMMERCIAL BANK OF THE NEAR EAST LIMITED

THE profit for 1953 (including £13,953 released from provisions for depreciation of investments made in prior years) is £31,760; deduct: United Kingdom taxation based on profit for the year after deducting relief in respect of foreign taxation paid during the year:—income tax, £17,900; profits tax, £2,400; excess profits levy, nil—£20,300—£11,460: add balance brought forward from previous year, £3,770—£15,230. The directors recommend the allocation of this amount as follows:—transfer to reserve, £5,000; proposed dividend for year of 3 per cent. *less* income tax, £3,300; to be carried forward to the current year, £6,930—£15,230.

Balance Sheet, December 31, 1953

LIABILITIES

Share capital—authorised, issued and fully paid: 40,000 shares of £5 each . .	£200,000	0	0
Reserve—balance at December 31, 1952, £50,000; *add* transfer from profit and loss account, £5,000—£55,000; profit and loss account, per account attached, £6,930	61,930	0	0
Current, deposit and other accounts, including reserve for United Kingdom income tax 1954–55, £1,755,257; proposed dividend, *less* income tax, £3,300 . .	1,758,557	0	0
Bills for collection—per contra	624,604	0	0
Documentary credits, acceptances, etc., on behalf of customers	247,502	0	0
	£2,892,593	0	0

NOTES:—(1) Currency assets and liabilities have been converted at the following rates to the £—Egyptian Piastres 97·5; Turkish Pounds 7·81; other currencies at the rates ruling at December 31, 1953.

(2) The subsidiary nominee company does not trade and its accounts show neither profit nor loss. Group accounts are not submitted in view of the insignificant amounts involved.

ASSETS

Current Assets—	
Cash in hand and at bankers in London	£16,366 0 0
Cash in hand and at bankers in Egypt	360,583 0 0
Money at call and short notice	435,000 0 0
Balances with foreign bankers and correspondents	50,041 0 0
Bills discounted	110,216 0 0
	£972,206 0 0
Investments at market value: Quoted on London Stock Exchange: British Government securities £155,188; other British securities, £14,733; other Government securities, £29,748; securities of foreign banks, £1,794; quoted on Overseas Stock Exchanges: securities held by branches, £10,940	212,403 0 0
Shares in nominee subsidiary company, £50; *less*: due to nominee subsidiary company, £50	—
Advances to customers and other accounts	833,367 0 0
Bills for Collection	624,604 0 0
Liabilities of customers for documentary credits, acceptances, etc., per contra	247,502 0 0
Fixed Assets—	
Furniture and fittings at cost *less* amounts written off	2,511 0 0
	£2,892,593 0 0

THE COMMERCIAL BANKING COMPANY OF SYDNEY LIMITED

The profit for the year ended June 30, 1954, after payment of all expenses of management, and provision for taxes and for rebate on current bills and accrued interest on fixed deposits and for bad and doubtful debts and other contingencies, amounts to £528,777. 5*s.* 11*d.*; to which is added the amount brought forward from June 30, 1953, £214,886. 0*s.* 1*d.*; making a total of £743,663. 6*s.* 0*d.*; from which the directors have made the following appropriations:—To interim dividend for the half-year ended December 31, 1953, at the rate of 8 per cent. per annum paid on January 22, 1954, £189,560. 10*s.* 0*d.*; transfer to reserve fund, £106,697. 2*s.* 0*d.*; reduction of bank premises account—amount written off for depreciation, £25,000—£321,257. 12*s.* 0*d.*; leaving a balance of £422,405. 14*s.* 0*d.*; and now recommend for sanction their declaration of a dividend for the half-year ended June 30, 1954, at the rate of 8 per cent. per annum payable at the head office of the company, £189,560. 10*s.* 0*d.*; leaving the amount to be carried forward, £232,845. 4*s.* 0*d.*—£422,405. 14*s.* 0*d.*

Balance Sheet as at the close of business on June 30, 1954

LIABILITIES

Capital—Authorised in 480,000 shares of £25 each, £12,000,000. Issued—474,048 shares of £25 each, £11,851,200; *less* reserve capital of £12. 10*s.* per share, £5,925,600; paid up, £5,925,600; reserve fund (wholly used in the business of the bank), £4,850,000	£10,775,600 0 0
Final dividend proposed	189,560 10 0
Balance of profit and loss account	232,845 4 0
Total shareholders' funds	£11,198,005 14 0
Deposits, bills payable and other liabilities, including provisions for contingencies	202,950,453 0 3
Notes in circulation	13,496 10 0
Balances due to other banks	1,130,735 16 4
	£215,292,691 0 7

ASSETS

Coin, bullion, notes and cash at bankers	£12,878,196	19	8
Money at short call in London	1,062,500	0	0
Special account with Commonwealth Bank of Australia	45,300,000	0	0
Cheques and bills of other banks and balances with and due from other banks	5,464,080	8	11
Treasury bills—Australian Governments	16,000,000	0	0
Public securities (excluding Treasury bills)—at or below market value (including £4,000 lodged with public authorities)—Australian Government securities	34,759,159	5	1
Bills receivable and remittances in transit	13,776,963	19	0
	£129,240,900	12	8
Loans, advances and bills discounted (after deducting provisions for debts considered bad or doubtful)	82,436,951	0	8
Bank premises, furniture and sites—at cost, *less* amounts written off	1,668,343	18	1
All other assets	1,946,495	9	2
	£215,292,691	0	7

FINANCE CORPORATION FOR INDUSTRY LIMITED

IT has been considered desirable and necessary to apply the whole of the available balance of income for the year, namely £2,652,474, in writing down investments in companies other than those taken over by the Iron and Steel Holding and Realisation Agency. These investments, amounting at cost *less* amounts written off to £22,634,639, include interests in companies in the development stage the ultimate value of which cannot yet be measured. The balance carried forward on profit and loss account remains at the same amount as last year.

Balance Sheet, March 31, 1954

LIABILITIES

Capital—			
Authorised—2,500,000 shares of £10 each, £25,000,000.			
Issued—2,500,000 shares of £10 each, 4*s*. paid	£500,000	0	0
Profit and loss account	74,926	0	0
	£574,926	0	0
CURRENT LIABILITIES:—			
Advances from bankers (including accrued interest), £60,112,852; creditors and accrued charges, £1,949	60,114,801	0	0
	£60,689,727	0	0

ASSETS

Investments (unquoted) by way of loans and participations:—			
In companies taken over by the Iron and Steel Holding and Realisation Agency at cost	£36,275,000	0	0
In other companies, at cost *less* amounts written off	22,634,639	0	0
	£58,909,639	0	0
Income tax recoverable and debtors	1,057,352	0	0
Balance at bankers	596,728	0	0
Preliminary expenses	126,008	0	0
	£60,689,727	0	0

NOTES.—(1) At March 31, 1954, the company had undertaken to make further loans amounting to £18,285,000.

(2) Investments by way of loans and participations in "other companies" include interests in companies in the development stage the value of which cannot yet be assessed.

BANK OF ENGLAND—ANALYSIS OF RETURNS

Date	Notes in Circulation	Gold Coin and Bullion	Government Securities in Banking Department	Other Securities in Banking Department	Discounts and Advances	Public Deposits †	Other Deposits: Bankers	Other Deposits: Other Accounts	Total Deposits	Reserve	Proportion of Reserve to Liabilities	* Rate of Discount
1954	£	£	£	£	£	£	£	£	£	£	%	%
May 5	1,613,339,928	3,045,938	353,054,439	13,855,875	9,607,700	28,571,611	275,462,513	69,331,693	373,365,817	14,706,010	3·9	3½
„ 12	1,612,905,757	3,039,676	346,179,439	14,049,612	8,237,700	24,579,121	270,615,582	70,663,933	365,858,636	15,133,919	4·1	„
„ 19	1,609,768,690	3,088,542	338,829,439	13,902,255	6,973,542	24,019,416	267,424,762	68,623,570	360,097,748	18,319,852	5·0	„
„ 26	1,613,419,801	3,114,245	338,664,439	13,863,081	6,958,549	23,224,529	267,813,508	69,804,116	360,842,153	14,694,444	4·1	3
June 2	1,624,694,203	3,123,022	301,174,439	13,892,973	15,448,654	15,033,855	280,768,312	70,134,815	365,938,012	53,428,819	14·6	„
„ 9	1,637,150,536	2,614,397	321,444,439	13,795,246	8,838,464	19,792,591	279,262,501	67,439,539	366,494,631	40,463,861	11·0	„
„ 16	1,640,712,366	2,606,565	326,759,439	13,855,763	9,419,493	15,431,666	287,175,604	66,221,834	368,829,104	36,894,199	10·0	„
„ 23	1,641,508,951	2,602,785	320,924,439	13,847,245	13,609,713	15,640,509	283,457,867	67,234,525	366,332,901	36,093,834	9·8	„
„ 30	1,647,428,299	2,613,862	360,924,439	13,668,501	11,744,709	19,265,109	307,742,860	71,342,609	398,350,578	30,185,563	7·5	„
July 7	1,661,664,096	2,616,642	349,389,439	13,635,658	7,200,065	27,100,502	273,962,832	66,888,961	367,952,295	15,952,546	4·3	„
„ 14	1,675,996,045	2,626,727	323,356,629	13,895,766	7,793,713	23,628,858	287,694,077	67,120,686	378,443,621	51,630,682	13·6	„
„ 21	1,701,273,046	2,616,544	337,096,629	13,877,583	8,808,713	21,428,801	277,519,491	68,889,743	367,838,035	26,343,498	7·1	„
„ 28	1,715,828,844	2,632,656	324,911,629	13,895,207	8,232,000	25,066,224	269,084,102	71,294,557	365,444,883	36,803,812	10·0	„
Aug. 4	1,716,917,875	2,621,056	329,351,629	13,721,998	5,767,000	25,502,973	273,740,439	66,967,194	366,210,606	35,703,181	9·7	„
„ 11	1,695,486,058	2,617,695	289,556,629	13,602,265	7,560,000	15,423,072	270,848,763	63,224,566	349,496,401	57,131,637	16·3	„
„ 18	1,670,527,136	2,660,612	333,491,629	13,770,421	5,015,000	15,275,610	274,214,479	76,514,075	366,004,164	32,133,476	8·7	„
„ 25	1,653,967,835	2,655,021	296,411,629	13,697,754	6,985,000	16,285,529	267,212,856	63,849,226	347,347,611	48,687,186	14·0	„
Sept. 1	1,649,903,273	2,640,683	319,521,629	14,550,272	9,475,000	18,277,509	266,677,340	67,861,041	352,815,890	27,737,410	7·8	„
„ 8	1,647,726,660	2,658,626	318,376,629	14,691,558	7,145,000	19,825,954	265,483,742	66,346,356	351,656,052	29,931,966	8·5	„
„ 15	1,642,629,269	2,655,839	321,601,629	14,782,710	14,675,074	21,200,143	280,434,828	65,958,245	367,593,216	35,026,570	9·5	„
„ 22	1,638,026,815	2,658,439	321,826,629	14,753,783	5,720,074	16,023,440	280,312,772	67,073,913	363,410,125	39,631,624	10·9	„

* The figures of the Returns are those of the Wednesday on which the Returns are dated but except when otherwise stated the dates of the change in the Official Rate of Discount apply to the following day (Thursday).
† This figure includes H.M. Treasury Special Account.

MONTHLY STATEMENT OF BALANCES OF LONDON CLEARING BANKS

(000's omitted)

August, 1954	Barclays	Coutts and Co.	District	Glyn, Mills & Co.	Lloyds	Martins	Midland	National	National Provincial	West-minster	Williams Deacon's	Aggregates
Date:	18th	18th	18th	18th	18th	18th	18th	17th	18th	18th	18th	
ASSETS	£	£	£	£	£	£	£	£	£	£	£	£
Coin, Bank Notes and Balances with the Bank of England	111,044	4,431	19,725	5,148	97,149	24,138	114,651	7,091	68,513	70,580	11,042	533,512
Balances with and Cheques in course of collection on other Banks in the U.K. and Republic of Ireland	44,353	2,054	13,220	3,817	39,557	15,029	50,602	1,236	26,514	35,644	7,387	239,413
Items in Transit	—	—	—	—	10,620	—	—	—	—	—	—	10,620
Money at Call and Short Notice	87,769	5,405	11,611	10,506	73,355	24,665	84,644	13,186	54,760	56,664	12,182	437,777
Treasury Bills Discounted	235,285	7,000	37,430	2,925	222,400	45,595	244,186	2,300	165,350	144,315	19,000	1,126,786
Other Bills Discounted	25,518	514	679	581	11,047	3,233	29,735	2,721	3,628	4,360	548	82,567
Investments at Book Value	513,357	18,418	97,885	19,811	435,396	112,348	489,822	27,912	272,822	310,414	49,850	2,348,008
Advances to Customers and other Accounts	364,956	15,934	61,006	22,313	312,470	91,967	382,291	30,844	263,453	242,860	40,884	1,828,978
Liabilities of Customers for Acceptances, Endorsements, etc.	44,904	2,196	17,227	6,050	94,102	14,674	50,521	1,423	34,699	58,621	11,654	336,071
Bank Premises Account	9,850	405	1,537	695	8,574	4,353	8,709	431	6,473	5,741	1,127	47,925
Investments in Affiliated Banks and Subsidiary Companies	13,482	—	—	—	4,346	100	8,866	—	2,304	3,092	—	32,190
	1,450,548	56,357	263,323	71,846	1,309,016	337,102	1,464,027	87,147	898,516	932,291	153,674	7,023,847
Ratio of Cash to Current, Deposit and other Accounts	8·11	8·49	8·24	8·08	8·21	7·73	8·29	8·63	8·14	8·27	7·99	8·18
LIABILITIES												
Capital Paid up	22,915	1,000	2,976	1,060	15,810	4,315	15,159	1,500	9,479	9,320	1,875	85,409
Reserve Fund	12,750	1,000	3,800	1,060	16,500	6,000	15,158	1,435	12,250	10,920	2,000	82,873
Current, Deposit and other Accounts	1,369,979	52,161	239,320	63,676	1,182,595	312,095	1,383,189	82,177	842,088	853,415	138,145	6,518,840*
Acceptances, Endorsements, etc.	44,904	2,196	17,227	6,050	94,102	14,674	50,521	1,423	34,699	58,621	11,654	336,071
Notes in Circulation	—	—	—	—	9	18	—	612	—	15	—	654
	1,450,548	56,357	263,323	71,846	1,309,016	337,102	1,464,027	87,147	898,516	932,291	153,674	7,023,847

* Current Accounts, £4,172,470 Deposit and other Accounts, £2,346,370.

PROVINCIAL CLEARING-HOUSE RETURNS

[000's omitted]

Date	Birmingham	Bradford	Bristol	Hull	Leeds	Leicester	Liverpool	Manchester	Newcastle-on-Tyne	Nottingham	Sheffield	Southampton
1953	£	£	£	£	£	£	£	£	£	£	£	£
August	17,238	13,889	5,102	6,710	9,580	6,737	40,075	32,796	13,222	4,547	7,303	1,463
September	14,974	15,708	4,721	6,030	9,271	8,103	41,959	34,015	13,330	3,800	7,738	1,341
October	17,316	19,501	5,569	6,589	11,291	8,409	51,035	38,868	14,516	4,683	8,792	1,401
November	21,999	15,855	5,285	5,662	10,381	7,925	44,324	37,371	14,457	4,407	10,074	1,347
December	20,914	18,746	5,293	5,575	10,209	8,575	51,311	39,531	17,713	4,226	9,684	1,374
1954												
January	29,028	19,848	6,816	7,515	14,376	10,613	53,658	42,543	18,255	5,652	10,641	1,743
February	24,142	14,421	5,532	6,190	11,509	8,028	46,753	38,433	17,123	4,332	9,265	1,537
March	21,315	19,183	5,984	6,199	11,360	9,867	54,818	41,860	15,395	4,374	9,478	1,402
April	19,041	18,778	5,313	5,510	10,457	8,180	47,677	38,048	14,045	4,214	9,434	1,367
May	25,586	18,813	5,961	6,577	11,998	8,641	56,518	43,367	16,039	4,673	10,411	1,518
June	19,491	16,917	5,310	5,701	10,872	8,340	48,127	36,066	13,529	4,201	9,460	1,458
July	26,166	18,905	5,609	6,157	12,263	9,382	56,181	40,545	15,970	4,997	10,862	1,601
August	24,651	12,449	4,839	5,251	9,767	6,622	46,705	37,475	12,573	4,347	9,103	1,299

YEARLY PROVINCIAL CLEARING-HOUSE RETURNS

[000's omitted]

Date	Birmingham	Bradford	Bristol	Hull	Leeds	Leicester	Liverpool	*Manchester	Newcastle-on-Tyne	†Nottingham	‡Sheffield	Southampton
1942	128,228	106,344	101,364	38,787	57,197	43,611	239,347	621,956	75,702	24,062	43,603	5,891
1943	108,783	197,143	33,390	29,518	57,327	41,392	235,639	415,508	79,768	22,353	47,081	6,637
1944	90,201	94,055	34,139	30,403	59,912	41,451	264,679	170,732	88,596	21,004	47,861	8,310
1945	93,355	99,623	35,653	39,255	64,149	46,034	287,332	186,828	95,648	24,219	47,627	9,969
1946	156,640	114,317	37,332	49,889	76,955	57,819	331,808	225,032	111,429	30,357	56,007	10,832
1947	169,3[illegible]5	115,669	41,898	58,731	86,305	68,139	338,747	299,739	115,902	34,750	70,971	12,871
1948	181,814	143,480	42,129	65,318	103,883	73,284	488,353	379,963	126,786	38,411	80,633	13,301
1949	174,224	163,140	42,670	65,141	115,195	81,320	574,464	401,522	134,305	40,083	80,240	13,280
1950	190,365	219,707	44,917	67,074	119,829	86,665	634,248	439,788	132,766	43,736	83,444	13,745
1951	223,924	240,585	59,430	76,999	129,539	96,431	644,373	507,883	143,542	49,151	95,872	16,408
1952	226,701	175,907	63,248	76,104	124,499	91,371	544,082	417,029	165,857	50,704	100,674	16,855
1953	230,589	210,190	64,051	76,314	129,927	96,1[illegible]	537,462	436,534	181,809	53,504	106,535	17,043

* Area extended from July 1, 1947. † Area extended from May 5, 1947. ‡ Area extended from June 9, 1947.

LONDON BANKERS' CLEARING-HOUSE RETURNS

Month	Town Clearing	General Clearing	Total for the Month
1952	£	£	£
August	6,192,000,000	2,141,000,000	8,334,000,000
September	6,799,000,000	2,176,000,000	8,975,000,000
October	7,438,000,000	2,459,000,000	9,897,000,000
November	6,471,000,000	2,338,000,000	8,809,000,000
December	6,797,000,000	2,357,000,000	9,154,000,000
1953			
January	8,745,000,000	2,671,000,000	11,416,000,000
February	6,938,000,000	2,243,000,000	9,181,000,000
March	7,783,000,000	2,436,000,000	10,219,000,000
April	7,579,000,000	2,342,000,000	9,921,000,000
May	6,851,000,000	2,480,000,000	9,330,000,000
June	7,425,000,000	2,323,000,000	9,747,000,000
July	8,709,000,000	2,572,000,000	11,281,000,000
August	6,465,000,000	2,176,000,000	8,641,000,000
September	8,445,000,000	2,401,000,000	10,846,000,000
October	9,459,000,000	2,649,000,000	12,108,000,000
November	7,641,000,000	2,384,000,000	10,026,000,000
December	8,030,000,000	2,627,000,000	10,657,000,000
1954			
January	9,554,000,000	2,734,000,000	12,288,000,000
February	7,437,000,000	2,351,000,000	9,788,000,000
March	9,639,000,000	2,638,000,000	12,277,000,000
April	8,583,000,000	2,483,000,000	11,066,000,000
May	9,675,000,000	2,601,000,000	12,276,000,000
June	10,918,000,000	2,592,000,000	13,510,000,000
July	11,549,000,000	2,805,000,000	14,354,000,000
August	8,062,000,000	2,380,000,000	10,443,000,000

SCOTTISH CIRCULATION RETURNS

AVERAGE CIRCULATION AND COIN HELD DURING THE FOUR WEEKS ENDED SATURDAY, JULY 24, 1954

Name of Bank	Authorised Circulation	Average Circulation during Four Weeks ended as above			Average Amount of Bank of England Notes and Coin held during Four Weeks ended as above
		£5 and upwards	Under £5	Totals	
	£	£	£	£	£
1 Bank of Scotland	396,852	8,844,907	5,220,320	14,065,227	14,566,985
2 Royal Bank of Scotland	216,451	7,507,402	6,337,903	13,845,305	14,614,877
3 British Linen Bank	438,024	6,971,636	4,532,355	11,503,991	11,959,128
4 Commercial Bank of Scotland	374,880	11,614,074	6,568,456	18,182,530	19,479,313
5 National Bank of Scotland	297,024	7,330,579	4,567,441	11,898,020	12,759,678
6 Union Bank of Scotland	454,346	5,732,022	4,186,606	9,918,628	10,375,680
7 Clydesdale and North of Scotland Bank	498,773	15,709,830	6,270,562	21,980,392	23,314,948
Totals	**2,676,350**	**63,710,450**	**37,683,643**	**101,394,093**	**107,070,609**

Each of the Bankers named in the above Return, who have in Circulation an amount of notes beyond that authorised in their Certificate, have held an amount of Bank of England Notes and Gold and Coin other than Gold Coin not less than that which they are required to hold during the period to which this Return relates.

IRISH CIRCULATION RETURNS

NORTHERN IRELAND

AVERAGE CIRCULATION AND COIN HELD DURING THE FOUR WEEKS ENDED SATURDAY, JULY 24, 1954

NAME OF BANK	Authorised Circulation	Average Circulation during Four Weeks ended as above			*Average Amount of Bank of England Notes and Coin held during Four Weeks ended as above
		£5 and upwards	Under £5	Totals	
	£	£	£	£	£
1 Bank of Ireland	†672,401	1,620,900	281,156	1,902,056	1,328,131
2 Provincial Bank of Ireland . .	†249,290	1,268,040	224,824	1,492,864	1,436,457
3 Belfast Banking Company . .	350,000	1,083,065	71,525	1,154,590	1,772,461
4 Northern Bank	244,000	1,569,403	77,779	1,647,182	1,926,263
5 Ulster Bank	290,000	1,485,715	95,494	1,581,209	1,855,481
6 National Bank	†123,460	584,593	29,747	614,340	514,797
Totals	**1,929,151**	**7,611,716**	**780,525**	**8,392,241**	**8,853.590**

Each of the Bankers named in the above Return, who have in circulation an amount of Notes beyond that authorised by the Bankers (Northern Ireland) Act, 1928, have held an amount of Bank of England Notes and Gold Coin and Coin other than Gold Coin not less than that which they are required by the Treasury to hold during the period to which this return relates.

† These amounts are the latest amounts approved by the Treasury.
* This column includes Bank of England Notes deposited at the Bank of England which, by virtue of Sec. 9 (1) of the Currency and Bank Notes Act, 1928, are to be treated as gold coin held by the Bank.

LEGAL TENDER NOTE FUND AS AT JULY 24, 1954

ISSUE ACCOUNT

	£	s.	d.		£	s.	d.
Outstanding as at end of previous week	66,777,701	0	0	Redeemed during week ended July 24, 1954 . . .	937,333	0	0
Issued during week ended July 24, 1954 . . .	754,153	0	0	Outstanding as at July 24, 1954	66,594,521	0	0
	£67,531,854	**0**	**0**		**£67,531,854**	**0**	**0**

FOREIGN BANK RETURNS

BANK OF FRANCE

Francs (000,000's omitted)

Date	Gold	Private Discounts and Advances	Advances to State: In Occupation Costs	Advances to State: Treasury Advances	Advances to State: Fixed Advances	Advances to State: Special Advances	Notes	Deposits
Aug. 19 . . .	201,282	1,277,141	426,000	195,000	53,849	151,200	2,325,436	127,576
„ 26 . . .	201,282	1,253,940	426,000	195,000	53,849	168,200	2,333,133	128,360
Sept. 2 . . .	201,282	1,300,446	426,000	195,000	53,849	177,900	2,402,241	129,204
„ 9 . . .	201,282	1,312,768	426,000	195,000	53,849	176,700	2,396,745	125,753
1953								
Sept. 10 . . .	201,282	1,[illegible]80,035	426,000	200,000	53,849	186,700	2,194,226	140,582

FOREIGN BANK RETURNS—(*continued*)

U.S. FEDERAL RESERVE BANKS

Dollars (000,000's omitted)

Date	Total Gold Reserves	Total Cash Reserves	Total U.S. Govt. Securities	Total Bills and Advances	Total Reserves
August 11 . .	21,174	495	24,023	24,512	49,934
,, 18 . .	21,172	500	23,957	24,417	50,353
,, 25 . .	21,172	519	23,908	24,222	49,509
Sept. 1 . .	21,127	491	24,023	24,317	49,570
,, 8 . .	21,124	437	24,0[illegible]5	24,199	49,201
1953					
Sept. 9 . .	20,990	308	25,126	25,620	50,571

Date	F.R. Notes in Circulation	Member Bank Reserve Deposits	Government Deposits	Total Deposits	Excess Member Bank Reserve Deposits	Reserve Ratio %
August 11 . .	25,561	18,731	593	20,270	1,129	46·2
,, 18 . .	25,530	18,776	646	20,397	1,193	46·1
,, 25 . .	25,468	18,579	596	20,154	1,005	46·4
Sept. 1 . .	25,576	18,530	591	20,009	985	46·3
,, 8 . .	25,709	18,274	416	19,635	804	46·6
1953						
Sept. 9 . .	26,174	19,104	574	20,610	382	44·9

U.S. FEDERAL RESERVE BANKS AND TREASURY COMBINED

Date	Monetary Gold Stock	Treasury and Bank Currency	Money in Circulation	Treasury Cash and Deposits with F.R. Banks
August 11 . . .	21,858	4,960	29,911	1,392
,, 18 . .	21,858	4,960	29,866	1,458
,, 25 . . .	21,858	4,961	29,786	1,408
Sept. 1 . . .	21,809	4,965	29,923	1,400
,, 8 . . .	21,809	4,967	30,115	1,254
1953				
Sept. 9 . . .	22,173	4,865	30,479	1,848

GERMAN FEDERAL REPUBLIC

Combined Return of the Bank Deutscher Länder and the Land Central Banks
(in DM million)

Date	Gold	Credit Balances at Foreign Banks, Foreign Cash, Bills and Cheques	Inland Bills of Exchange	Advances and Short-Term Lendings to the Federal Government and other Public Authorities	Bank Notes in Circulation	Bank Deposits	Non-Bank Deposits *
August 23 .	2,220·7	8,152·4	1,526·1	179·6	10,300·1	3,416·1	6,152·7
,, 31 .	2,286·4	8,148·4	1,504·6	159·5	11,685·6	2,965·7	5,379·4
Sept. 7 .	2,328·3	8,155·9	1,445·4	153·5	11,216·3	3,372·7	5,224·4
1953							
Sept. 7 .	1,037·9	6,099·1	1,910·5	213·6	10,743·7	2,817·9	—

* These figures include purchases of Equalisation Claims by Public Authorities.

INSURANCE AND ACTUARIAL RECORD

Legal and General Assurance Society

A NEW series of with-profit contracts, depending for their bonus exclusively upon profits of the life and annuity fund has been instituted by the *Legal and General Assurance Society*, and the necessary alterations to the memorandum and articles of association have been effected. These important changes in the constitution of the society are of interest in that they reverse a policy adopted so long ago as 1919 when the society decided to cease the issue of life assurance policies participating in profits. From that date until 1937, the society confined itself to the issue of contracts giving fixed benefits only, and although in 1937 it recommenced the issue of with-profit policies, these were of a special character imposed by the society's then constitution. The bonus in respect of these policies was limited to a maximum rate of 38*s*. per cent. per annum compound, and depended not only on the surplus of the life assurance fund but also upon the profits of other classes of the society's business.

It is evident tht the inability of the society to issue with-profit policies in the accepted form, i.e. without limitation as to the rate of bonus, has been a handicap to further development, and the proposals have been framed to enable the society to re-enter the with-profit field on a more normal and competitive basis. As announced in our September issue, the society is for the present assuming a compound reversionary bonus of 37*s*. 6*d*. per cent. per annum, in connection with the new series of participating assurances. The rights of existing with-profit policies are, of course, fully protected under the new constitution, the society having assumed liability for payment of a guaranteed bonus of 38*s*. per cent. compound, and for the purpose set up appropriate policy reserves. With-profit policyholders, therefore, no longer depend upon, nor are entitled to, 90 per cent. of the profits of the society's other classes of business, as hitherto.

The accounts of the *Legal and General* are again presented in consolidated form, with the figures relating to fire and accident business including those of the *Gresham Fire and Accident Society*. A separate set of accounts is included in respect of the *Gresham Life Society*, and brief particulars from these accounts are given at the end of this review.

The total net new life sums assured last year at £81,481,132 (against £72,347,021 in 1952), included £34,243,348 (against £35,429,966) of ordinary business, £17,920,639 (against £14,653,432) of decreasing term and group assurances and £29,317,145 (against £22,263,623) by way of increases on existing group life assurances. The total net premium income in the life account amounted to £27,864,326, compared with £25,820,036 and £22,397,936 in the two preceding years, while consideration for annuities granted brought in £1,057,148, against £907,370 in 1952 and £879,311 in 1951. Net interest income was higher by £965,375 at £6,931,980, and the account was credited with a profit of £50,369 (against £96,349) on reversions realised. The gross rate of interest earned on the life fund, excluding the amount invested in purchased reversions, was £4 11*s*. 5*d*. per cent. as compared with £4 8*s*. 9*d*. per cent. in the previous year. The

corresponding net rate was £4 0*s.* 10*d.* per cent. as compared with £3 19*s.* 2*d.* per cent. for the year 1952. Following an investigation into the mortality experience the results in the life assurance section were favourable. The results of pension business were likewise satisfactory, but in respect of privately purchased annuities the results were less favourable than expected and the position regarding them is being carefully watched. The net amount paid in respect of claims by death was £2,267,974, and matured policies took £1,417,800. Commission and expenses took £2,621,515, and surrenders absorbed £3,673,489 of which £2,301,873 applied to group life and pension business. The life assurance and annuity fund rose in the year from £165,411,932 to £188,349,520.

Premiums in the sinking fund and capital redemption account amounted to £156,691 (against £121,680) and annuity considerations totalled £87,894 (against £104,796). Net interest brought in £105,112, and the fund at the year-end was £3,779,063. The permanent sickness account produced premiums of £109,506 (against £91,266), interest of £7,910 and an accumulated fund of £159,254, excluding claims reserve of £34,766.

In considering the non-life accounts, it has to be remembered that under the society's constitution as at the end of 1953, life policyholders had the right to draw on the earnings of other departments, if such a course proved necessary, in order to maintain the with-profit life bonus at a rate of 38*s.* per cent. per annum compound. Consequently once again, and probably for the last time having regard to the new constitution, the accounts show the fire and accident surpluses as retained in the departmental funds.

Fire premiums in 1953, including business of the *Gresham Fire* were £2,048,357 (against £2,076,500), and accident and miscellaneous premium income was £1,380,247 (against £1,275,132), making, with marine premiums of £393,476 (against £413,725) a combined total of £3,822,060 (against £3,765,357). The combined fire and accident surplus, after charging U.K. taxation and provisions for staff pensions, was £131,927, compared with £63,095 in 1952. The marine account is still in the development stage. The marine fund rose in the year from £490,976 to £532,479, and represented 135.3 per cent. of the premiums, against 118.7 per cent. in 1952 and 114.2 per cent. in 1951.

As transfers from the revenue accounts have been made only at the end of each quinquennium, the profit and loss account deals almost entirely with the payment of the dividend. At profit and loss, the balance of £608,506 brought forward was augmented by interest of £125,846. The dividend for the year absorbed £190,937, United Kingdom taxation took £62,248, and £12,771 was allowed for undistributed profits of subsidiary companies applicable to the life assurance fund. The balance remaining, at £468,396 is more than adequate to cover present dividend requirements until the end of the quinquennium.

The consolidated balance sheet which includes figures of subsidiaries, excluding the *Gresham Life*, reveals assets of £209,061,110, compared with £180,607,086 a year ago. Freehold and leasehold properties and ground rents account for £64,931,470 (against £53,940,196) and mortgages on property, £31,571,536 (against £26,425,807). British Government and Government guaranteed securites are shown at £38,729,363 (against £34,414,906), other Stock Exchange securities at £52,016,481 (against £45,159,788) and loans on life interests, reversions etc., at £5,439,568 (against

£4,501,812). The cash item is £1,959,363 (against £1,647,797). The paid-up capital is £250,000 and, in addition to insurance funds of £194,948,815, there is a reserve fund of £1,250,000. The society's investment in the *Gresham Life Assurance Society* again appears at £400,000.

New business of the *Gresham Life Assurance Society* in 1953 consisted of 11,333 (against 11,066) policies assuring £11,011,545 (against £10,045,984), of which 4,979 (against 4,420) policies for sums assured of £5,714,841 (against £5,299,022) were written within the United Kingdom. Total premiums were higher by £503,539 at £3,770,076, consideration for annuities brought in £212,011 (against £52,811) and net interest income was £744,121 (against £633,908). Mortality experience was again favourable and income exceeded outgo by £2,319,191, to which extent the life and annuity fund was advanced to £21,124,107. The paid-up capital of the *Gresham Life* is £22,378, Balance sheet assets total £22,156,371 (against £19,831,392).

London and Lancashire Insurance Company

"BEHIND the cold figures of the annual accounting records," says the Hon. R. M. Preston, chairman of the *London and Lancashire Insurance Company*, "lies the story of the world-wide operations of the company." The aggregate premium income of 1953 in the three underwriting departments (fire, accident and marine) was £27,879,852." It differed little from the previous year, but the total profit was rather higher at £1,443,013, or 5.2 per cent. of the premium revenue.

Premiums in the fire account were £11,185,272 (against £11,401,294 in 1952 and £10,786,020 in 1951), nearly one-half of which were earned in the United States of America. The chairman points out that while the ever-present risk of fire damage continues the principal purpose of insurance in the fire account, yet there are additional hazards which are included in varying types of policies, such as the risk of damage by or from flood, storm and tempest, riot and civil commotion, earthquake, and the like. In fact, the United States last year suffered far more from tornado damage than in any other year in its recorded history and, while insurance against storm and tempest forms but a small proportion of the total business in the account, underwriting results were affected. Elsewhere fire business maintained its stable contribution to premiums and to profits. After making provision for all known contingencies and charging the account with £222,980 in respect of overseas taxes, there remained an underwriting surplus of £786,201, or 7 per cent. of the premium income, against a surplus of £1,016,300, or 8.9 per cent., a year ago.

A considerably increased volume of business was transacted in the accident account, the premium income being advanced by £1,298,932 to £12,255,095. The underwriting profit of £156,812 follows deficits of £184,497 and £395,994 in the two preceding years.

Approximately one-half the total world premiums in the account relates to motor insurance. A better experience is reported for last year in this important section, but in many parts of the world (including the United Kingdom) motor insurance remains an unremunerative business. The incurred claims ratio in respect to employers' liability insurance, was over the 70 per cent. mark in 1953, and the chairman remarks that premium rates are under continuing investigation among companies and may call for further adjustment.

The marine figures represent the total operation of the company's two affiliates, *The Marine* of London, and the *Standard Marine* of Liverpool. Current year premiums were £4,439,485 (against £5,318,651). Profit and loss received a transfer of £500,000 in respect of previous years, and the marine fund at the year-end was £6,232,233, or 143 per cent. of the total premiums, compared with 125.3 per cent. in 1952 and 130.4 per cent. in 1951.

Life business is transacted through the company's subsidiary, the *Law Union and Rock Insurance Company*. New business completed in 1953 was for £5,394,216 sums assured, compared with £4,657,464 in 1952 and £4,041,716 in 1951. Total life premiums were £1,295,694 (against £1,201,613); annuity considerations were £266,524 (against £313,097), and net interest brought in £547,547 (against £514,586). Mortality experience was again favourable, and, after paying annuities of £72,743, the fund rose from £15,186,017 to £15,855,079.

Our usual three-year trading analysis (excluding life business) follows :—

	1953	1952	1951
	£	£	£
Fire insurance surplus	786,201	1,016,300	910,359
Marine insurance surplus	500,000	515,000	500,000
Accident and general surplus	156,812	—184,497	—395,994
Fixed term account	4,048	2,885	3,021
	£1,447,061	£1,349,688	£1,017,386
Net interest earnings	761,787	684,091	839,354
	£2,208,848	£2,033,779	£1,856,740
One-fifth of quinquennial life profits	20,284	20,284	20,284
Fees	250	222	259
Profit for the year	£2,229,382	£2,054,285	£1,877,283
Less British income tax on profits	627,552	491,762	592,266
Less profits tax	124,310	242,815	533,519
Available for distribution	£1,477,520	£1,319,708	£751,498

Disposal of the trading surplus during the past three years is shown in the following summary :—

	1953	1952	1951
	£	£	£
Staff pension fund	160,000	150,000	125,000
Staff Widows' fund	15,000	15,000	15,000
Transferred to reserve	—	—	500,000
Added to carry-forward	637,209	581,517	—413,927
Dividend	665,311	573,191	525,425
Dividend, *less* tax, per £1 stock	6*s*. 6*d*.	6*s*.	5*s*. 6*d*.

Consolidated assets totalled £59,690,250 (against £57,650,299 a year ago) of which £16,015,389 (against £15,335,981) relates to the *Law Union and Rock* life assets. The total assets of the *London and Lancashire* alone are shown in the statutory balance sheet at £27,108,472 (against £25,992,016). Paid-up capital is £3,639,310 and the consolidated balance sheet shows a general reserve of £6,000,000 and an increased profit and loss balance of £4,506,102. There is also an item of £4,400,139 in respect of "sundry creditors and reserves," and a cash item of £6,985,211.

Insurance Notes

INDUSTRIAL ASSURANCE PROGRESS

DURING 1953 the combined life assurance funds of industrial life offices increased by over £92 million. This figure is contained in an announcement by Mr. D. R. Woodgate, chairman of the Industrial Life Offices' Association, and general manager of the Wesleyan and General Assurance Society. The statement relates to the operations in 1953 of 24 offices transacting over 99 per cent. of the industrial life, or as now more familiarly termed "home service," assurance business in this country. Including subsidiaries the total premium income in all branches was £262 million compared with £250 million for 1952. The combined life assurance funds amounted to £1,569 million compared with £1,476 million. The total sums assured and bonuses in force in the life branches now exceed £4,700 million, of which £2,938 million relates to industrial business. The premium income in respect of industrial assurances was £141,904,643 compared with £136,460,071 in 1952.

New industrial life policies issued last year totalled £276,699,117 sums assured, and recorded an increase of £10,987,095 on the previous year's total.

HEAVY UNITED STATES FIRE LOSS

THE largest fire in the United States since the disastrous General Motors fire at Livonia occurred recently at the premises of the American Distillery Company at Pekin, Illinois. The fire was caused by lightning which struck a warehouse building containing some 20,000 barrels of whisky. Despite the prompt attendance of the Pekin Fire Brigade, the fire spread to other storage and bottling warehouses, and some 20 hours after the first alarm a violent explosion occurred. There were unfortunately fatal casualties and many injured.

The insurances are widely spread over American and British companies, and it is understood that Lloyd's underwriters carry a very important share. First estimates of the loss were placed at $10 million (£3,600,000), but it is now considered that this figure may be exceeded.

"EMPRESS OF CANADA" SALVAGE

THE total deficit of the Mersey Docks and Harbour Board in salving the burnt-out liner *Empress of Canada* was £327,000. The Board's total expenses incurred in uprighting and raising the vessel amount to approximately £466,000, and the total receipts, including the sale of the hulk, the propellers, and the quantity of scrap, will realise approximately £139,000.

It will be recalled that as a result of a fire which broke out in the *Empress of Canada* whilst lying in the Gladstone Dock, Liverpool, early in 1953, the British marine insurance market made payment to the Canadian Pacific Company of more than £1,300,000 in respect of a claim for a constructive total loss of the liner. This payment was made well inside a week of the presentation of the claim, and within three weeks of the occurrence of the fire. By this payment the ownership of the liner passed to underwriters, who, of course, became entitled to amounts realised by sale of the hull for scrap, subject to a prior claim for the cost of salvaging the liner from its capsized position in the dock. Since the cost of salvaging and removing the liner has proved in excess of its scrap value, underwriters will doubtless be called upon to make a further payment to cover the excess.

The *Empress of Canada* has been taken to Italy, where she will be broken up.

INCOME TAX AND "OWN-CASE" COMMISSION

THE question of income tax on insurance branch managers' and agents' own policies has been the subject of correspondence in recent issues of *Taxation*. In the course of this correspondence a writer stated "We referred the matter to Somerset House . . . and the official view is that there is no objection to the commission on branch managers' and agents' own policies being excluded from Schedule E assessments."

SERIOUS U.S. HURRICANE

A PROPERTY loss around £180 million and heavy insurance claims will result from the serious hurricane which, carrying the code name "Carol," swept across Long Island and the New England States at the end of August. Over 200,000 notifications of claim were presented in the first two weeks of September, and the number has since risen sharply. It is clear that the property damage is comparable to that caused by the September, 1938, hurricane, and it also seems probable that the property damage may exceed that caused by the November, 1950, New England storm. On the latter occasion the property loss and damage exceeded £100 million, of which one-half, or over £50 million was covered by insurance. The British insurance market was then called upon to pay some £17 million.

One factor which may tend to reduce the insurance claims in comparison with those which had to be met as a result of the 1950 storm is that since that date a $50 deductible has been introduced into the extended coverage granted by the companies in the States affected. On the other hand, there has been since 1950 an extensive construction of dwellings, particularly on Long Island, and a rise in building costs, both of which may make the average amount of claim, even after deduction of the $50 greater than in 1950.

The British companies operating direct in the United States have extensive interests in the areas affected, and the catastrophe excess reinsurance market in London, especially at Lloyd's, will no doubt again be heavily committed.

BRITISH TEXILES AND U.S. FIRE SAFETY ACT

An important new United States Fire Safety Act (the United States Flammable Fabrics Act) makes it unlawful as from July 1, 1954, to manufacture for sale, sell or offer for sale in commerce, or to import into the U.S.A. any article of wearing apparel, or fabric intended for wearing apparel, which is so highly flammable as to be dangerous when worn by individuals. The American Standard prescribes that specimens of fabrics concerned shall be tested in a special flammability tester. One of the American meters has been purchased and installed by the Manchester Chamber of Commerce and British exporters can have their fabrics tested there according to the requirements of United States Commercial Standard 191–53, at a charge for the complete test of £2. 12*s*. 6*d*. A noteworthy list of penalties awaits any firm offending against the new Act. Commenting upon this piece of U.S. legislation, *The Fireman* says: "We now await a similar Act in this country to augment the Fireguards Act."

"SOUTHERN CROSS" INSURANCE

It is understood that the Shaw Savill liner *Southern Cross*, launched by the Queen at Harland and Wolff's shipyard, Belfast, in August, is at present insured on the London market for a sum approaching £3½ million. The fact that the liner will carry no cargo apart from passengers' baggage, increases the space available for the 1,200 passengers in one class that she will accommodate. There is also the fact that the engine room and funnel is placed at the stern.

CRIME IN 1953

The recently issued Home Office publication *Criminal Statistics, England and Wales*, 1953 (H.M. Stationery Office, Cmd. 9199, price 5*s*. 6*d*.), states there were 472,989 indictable offences known to the police during 1953, being 7·9 per cent. fewer than in the previous year, and 47 per cent. of them were cleared up, compared with 47·5 per cent. in 1952. The number of persons found guilty of indictable offences during the year was 115,784, of whom 100,488 were males and 15,296 females, the total being 11·6 per cent. lower than that of 1952. There were decreases of 13 per cent. in the number of persons found guilty of larceny, 15 per cent. in the number found guilty of breaking and entering, 20 per cent. in the number found guilty of receiving, and 1 per cent. in the number found guilty of frauds and false pretences.

Of the 73,033 persons found guilty of larceny in 1953, 20 per cent. were persons under age 14, 14 per cent. persons age 14 to 17, 10 per cent. persons 17 and under 21, 20 per cent. persons 21 and under 30, and 36 per cent. persons aged 30 and over.

Of the 18,633 persons found guilty of breaking and entering in 1953, 29 per cent. were persons under age 14, 21 per cent. persons 14 and under 17, 15 per cent. persons 17 and under 21, 22 per cent. persons 21 and under 30, and 13 per cent. persons aged 30 and over.

October, 1954

The number of persons found guilty of non-indictable offences totalled 586,260, a decrease of 4·9 per cent. compared with the previous year. The number of traffic offences (dealt with summarily) was 374,856 (against 398,075) and they represent 53·4 per cent. of all types of offences.

Returns received from coroners show that according to the verdicts recorded 4,658 persons committed suicide in 1953, compared with 4,290 in 1952. The number of cases of attempted suicide which came to the knowledge of the police was 4,816 compared with 4,484 in 1952. The number of offences of murder of persons aged one year or over recorded as known to the police during 1953 is 131.

ALL SICKNESS AND ACCIDENT INSURANCE

ALL sickness in conjunction with personal accident insurance is now being underwritten by the Guardian Assurance Company, and a prospectus is available for brokers and agents who are interested in this class of business. Age limits at entry are 18 to 50 years. Sickness benefits will, in the case of policies remaining in force until that age, cease at 65, but accident cover may be continued until age 70, when it will be subject to revision. The policy covers accidents in all parts of the world, but the sickness benefits are limited to Europe, Canada and the United States of America. Extension of cover on special terms will be considered in respect of motor cycling, football and other recreations involving extra hazard.

U.K. NETHERLANDS SOCIAL SECURITY CONVENTION

A CONVENTION on Social Security between the United Kingdom and the Kingdom of the Netherlands was signed on August 11 at The Hague. The Convention deals with benefits for sickness, unemployment, maternity, old age, widowhood, orphanhood and industrial accidents and diseases. It will enable contributions paid under the national insurance schemes of both countries to be taken into account when a person claims any of these benefits. It will also enable people who are receiving pensions to continue to receive them if they go from one country to the other. The Convention will not come into operation until it has been ratified by both Governments.

Insurance Appointments, etc.

ALLIANCE ASSURANCE COMPANY.—Lt.-Col. F. W. Moore, D.S.O., M.C., has resigned from the Yorkshire and Derbyshire area board.

LEGAL AND GENERAL ASSURANCE SOCIETY.—Admiral Sir William Tennant, K.C.B., C.B.E., M.V.O. and Mr. A. H. Ensor have been appointed directors. Sir William Tennant will continue to be chairman of the Society's Midlands board.

Index to Advertisers

[Reproduced from a portrait by James Gunn

THE RT. HON. LORD BALFOUR OF BURLEIGH, D.C.L., D.L.
Retiring Chairman of Lloyds Bank Limited

[Photographed by WALTER STONEMAN

THE RT. HON. SIR OLIVER FRANKS, G.C.M.G., K.C.B., C.B.E., M.A.
Newly elected Chairman of Lloyds Bank Limited

THE BANKERS'

INSURANCE MANAGERS' AND AGENTS'

MAGAZINE

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G.A.T.T. at the Cross-Roads

By D. J. Morgan

London School of Economics

THE Contracting Parties to the General Agreement on Tariffs and Trade (or G.A.T.T.) are about to meet in Geneva to review the operation and the provisions of the General Agreement in order to consider to what extent it is desirable to amend or supplement the Agreement so that it might take a more permanent form. On the eve of this conference it is well to recall the circumstances in which the General Agreement came into being, to comment on its working and to offer some conjectures about its future.

G.A.T.T. owes its origin to the discussions that took place during the war years on the basis of an international economic system. This system was intended to cover foreign exchange policy, international investment and commercial policy. At Bretton Woods in 1944 the first two of these fields were covered by the creation of the twin institutions of the International Monetary Fund and the International Bank for Reconstruction and Development. The system they were intended to create was to be a permanent one : thus there is no provision in the Articles of Agreement for the closure or revision of the I.M.F. These two institutions were to be joined by a third institution, the International Trade Organisation, which would be responsible for the commercial policy aspects of the system. It might well be thought that the I.M.F. and the I.T.O. should have been created together as they were essential complements of one another, the one dealing with the exchange side and the other with the trade side. It appears, however, that the prime movers on the monetary side, Lord Keynes and Harry White, had given little thought to the main features of an I.T.O. Indeed, from Mr. Harrod's *Life of Keynes* it would appear that Keynes was not sure whether the non-discriminatory

aspects of the I.M.F. should be carried over into the trade field. Be that as it may, the draft charter of the proposed I.T.O. was not completed until March, 1948, by which time the optimism of 1944 had given way to the hard reality of the dollar shortage, intensified trade controls and the threat of communist expansion. It was doubly the victim of delay. On the one hand governments, concerned with pressing problems, felt it belonged to a remote future while on the other hand public opinion was divided between those who criticised it because it was wrong in principle and those who criticised it because its principles were buried under several layers of exceptions and escape clauses. The charter was not offered for ratification and must be regarded, in its 1948 form at least, as a " dead letter."

However, whilst the I.T.O. charter was being negotiated, the Preparatory Committee—which had been appointed by the Economic and Social Council to draft it—had, in 1947, sponsored negotiations aimed at lowering tariffs and removing other barriers to trade between its own members. In order to ensure that the tariff concessions would not be nullified by subsequent action on the part of members an agreement was drawn up. This agreement, known as the General Agreement on Tariffs and Trade, incorporated all the important commercial policy provisions of the draft charter of the abortive I.T.O. Thus the G.A.T.T. constitutes an international code for commercial policy. It consists of three parts : (i) an acceptance of the unconditional most-favoured-nation clause as the basic principle of commercial policy, thus ensuring, subject to stated exceptions, that tariffs shall be non-discriminatory ; (ii) articles safeguarding tariff concessions ; and (iii) articles dealing with the territorial application and the administration of the Agreement. So G.A.T.T. is not basically different in either principle or intent from an ordinary tariff agreement between two countries ; it is not an international organisation as is the I.M.F. even though on certain matters the members are authorised or requested to take concerted action. It has a small Secretariat rather than an Executive Board, and provides for periodic meetings of the parties to it—the Contracting Parties—to consider any questions which involve joint action and generally with a view to facilitating the operation of the Agreement. These meetings have provided a means for the discussion of trade policy and for the settlement of differences between governments in the trade field. G.A.T.T. has therefore in part compensated for the failure to establish I.T.O. and to-day 34 countries belong while Japan participates fully as an associate member. The Participating Countries are together responsible for rather more than 80 per cent. of world trade.

The working of G.A.T.T. since its inception might conveniently be reviewed under three heads. In the first place, three conferences have been held (Geneva, Annecy and Torquay) to negotiate the reduction or binding of tariffs. Altogether tariffs have been reduced or bound on some 58,000 tariff items in the trade of the 34 member countries. Initially negotiated for a period of three years, these concessions have been once prolonged for a further period of three years and more recently at the Eighth Session of the Contracting Parties in 1953 for a further period of 18 months, that is until July, 1955. The continuance of quantitative restrictions on trade for balance of payments purposes has naturally severely restricted the application of these concessions which have been implemented in the meantime only by those countries, notably the United States and Canada, who have no such restrictions. These conferences have at one and the same time eased the difficulties of selling in dollar markets and permitted countries

in balance of payments difficulties to protect their balance of payments without threat of retaliation. Furthermore, the tariff arrangements have amounted to a tariff truce and so checked the recent tendency towards upward revision. It is possible to argue that this latter is the major contribution of G.A.T.T. since its inception. For once concessions have been incorporated in the agreement their withdrawal during the period of the agreement is not easy, involving as it does the making of compensatory concessions to the party directly concerned and to those other parties who are substantially interested. It is true that much has been heard of the so-called "escape clause" which permits a country in certain circumstances, when domestic producers are seriously injured or threatened with serious injury, to withdraw the negotiated concession. But resort to this clause has in fact been quite rare. For instance, the United States, which has granted some 2,000 concessions or bindings under the General Agreement, has successfully invoked the escape clause in only three relatively minor cases. Naturally, the existence of such a clause and the frequent attempt to use it sadly undermines the value of the Agreement as a whole for it suggests that if concessions lead to a satisfactory expansion of trade they are liable to be withdrawn. It might well be the case, therefore, that although a tightening of this clause might make countries more cautious in making concessions there would be a greater benefit to exporters in knowing that they could have confidence that whatever concessions were made would be available throughout the period of the concession.

In reviewing the working of G.A.T.T. attention must next be given to its concern with quantitative restrictions on imports. Whereas G.A.T.T. seeks to reduce tariffs, it contains a formal ban on the use of quotas for protective purposes. It is the only international instrument which contains a specific obligation on this point. Such restrictions are permitted as exceptional measures during the period when countries experience balance of payments problems. The decision on the adequacy or otherwise of a country's monetary reserves is a responsibility of the I.M.F. and G.A.T.T. as such has had little to do with the application of quotas or their elimination. Recently the Contracting Parties have considered the administration of these restrictions in order to prevent avoidable damage in their operation. This useful, though undramatic, work, might profitably be extended. With the easing of the balance of payments position of countries there have been significant reductions of late in the quantitative restrictions on dollar and other imports and to that extent G.A.T.T. ceases to work on its escape clauses.

Under the third and final head the work of G.A.T.T. in the field of international conciliation must be treated. The Agreement itself contains provisions enabling any contracting party which considers that any benefits accruing to it under the Agreement are being nullified or impaired by the action of another contracting party, or if the attainment of the objectives of the Agreement is being impeded, to bring the matter before the Contracting Parties if direct consultations have not succeeded. The parties are then heard and recommendations are made. Such recommendations, though not backed by any power of enforcement, have generally been accepted. If not accepted it is possible for G.A.T.T. to relieve the complaining party of obligations under the Agreement and in this way to keep retaliation under some measure of international influence.

This account of the working of G.A.T.T. will show that although G.A.T.T. has not yet become permanent and is in many ways sketchy, it is already applying powerful restraint on the policies of individual countries. A striking example of this may be found in the deliberations of the Eighth Session of the Contracting Parties last year. The undertaking not to increase margins of tariff preference—one of the central features of the Agreement—presented a dilemma for the United Kingdom Government because of its traditional policy of according free entry to most goods imported from the Commonwealth. As a result, the United Kingdom has not been free to exercise the right which it enjoys under G.A.T.T., in common with other contracting parties, to raise unbound rates of duty, for to do so would incidentally establish new tariff preferences unless duties were at the same time imposed also on Commonwealth products. The United Kingdom Government took this problem to the Eighth Session and asked for freedom to increase unbound rates of duty while continuing to grant free entry to imports from the Commonwealth, providing this did not result in any substantial benefit to the Commonwealth at the expense of other contracting parties. It was stated that the United Kingdom Government had no intention of embarking on a comprehensive or widespread upward revision of the protective tariff. It was explained that some adjustment of rates would facilitate the removal of quantitative restrictions on unbound items in which the Commonwealth had little, if any, interest. The waiver would, therefore, be almost wholly a technical departure from the " no new imperial preference " undertaking. In the light of the assurances given by the United Kingdom Government, and subject to the safeguard of procedures for the examination of proposed changes in rates of duty, the Contracting Parties granted the waiver. The procedures, which form an integral part of the decision, require the United Kingdom Government to give advance notice of any proposed change in a rate of duty which will have the incidental effect of increasing a margin of preference and to consult with any contracting party which has a substantial interest in the trade concerned and which claims that the increase in the preference margin involves likelihood of substantial diversion of trade to suppliers within the Commonwealth preferential area. In the event of a difference of opinion as to the likelihood of a diversion of trade, the United Kingdom may seek arbitration by the Contracting Parties. In granting this waiver the Contracting Parties declared that in no circumstances should their decision be construed as impairing the principles of the Agreement which forbid increases in margins of preference. As the *Manchester Guardian* commented at the time (October 28, 1953), " The rigid conditions of consultation and delay now imposed by the Geneva resolution are probably due to the fear of a general change in British policy rather than objections to this particular device. The rough handling which the British delegation had at Geneva may be unpleasant, but its effect should be wholesome." No country gains more on balance than does the United Kingdom from the relative stability of tariffs that has been brought about by the Agreement.

Although the achievements of G.A.T.T. have thus been substantial, particularly when the economic climate of the period 1947–54 is borne in mind, it must be admitted that they have also been limited. It has been noted already that between 1948 and 1951 as a result of the three tariff conferences much was done to lower or bind tariffs. Since the Torquay Conference there have been only a few isolated instances of decreases

and there is a distinct tendency towards the imposition of higher protective and fiscal duties in the unbound sectors of the tariff of the contracting parties and in the tariff legislation of other countries. This trend reflects in part the change-over from quantitative restrictions to tariffs. In part, however, it underlines the need for new methods of tariff reduction. For many governments have come to the conclusion that if tariff reduction is to continue to contribute towards the solution of current economic difficulties the techniques so far employed—which are based on strict reciprocity—will require modification. One of the main difficulties arises from the fact that some countries have relatively high tariffs and others relatively low tariffs. Following the three tariff conferences countries with relatively low tariffs find it increasingly hard to lower their tariffs any further, while countries with relatively high tariffs are unwilling to accept the continued binding of low rates of duty as compensation for further reductions on their part. Thus the whole system of negotiation on a strictly reciprocal basis tends to become sterile and unproductive, and it becomes increasingly clear, particularly from the point of view of low tariff countries, that if a further reduction in tariffs is to be brought about, some new basis for negotiation will have to be found. The main discussions between governments have been concentrated on the possibility of adopting some kind of automatic formula whereby countries would reduce the duties in selected or specified parts of their tariffs. In 1951 a plan for the reduction of tariffs on a world wide basis by 30 per cent. was put forward by the French Government, and by 1953 this plan had been submitted to detailed technical study, so that it had reached a form in which it could be examined by governments in relation to its impact on their trade. In the course of discussions the scheme was modified (*a*) to permit of a proportionately smaller reduction of duties where average duties were already very low, (*b*) to provide for ceiling rates of duty for the four categories in which trade is divided The new proposal may be summarised in the words of the official G.A.T.T. statement thus : " In place of bilateral negotiations between countries on a product-by-product basis aimed at a strict balance of concessions, there would be an obligation on all participating governments to reduce the protective incidence of their tariffs in accordance with a common standard. The concept of mutual advantage remains. The balance for any particular country, however, is measured not by setting off specific concessions obtained against specific concessions granted, but by setting off the overall reductions made by it under the common standard against the overall reductions made by others under the same standard. Another feature of the plan is that it requires efforts proportionate to each country's tariff level. And, finally, it provides an additional obligation to reduce individual rates of duty which exceed given levels."

The Governments of Belgium, Denmark, France, the Federal Republic of Germany and the Netherlands have indicated their support of this plan in principle, but, clearly, it cannot be brought into operation unless it is accepted by all the main trading countries on Europe and North America. In a word, the future of trade liberalisation depends on United States commercial policy. This is still not decided and cannot be decided until the next Congressional elections have been held. In the meantime it might be noted that there is a similarity between the G.A.T.T. proposal for tariff reduction and the recommendations of the Randall Commission which include, *inter alia*, a 5 per cent. reduction in the average level of tariffs for three years, which is one half of the reduction suggested in the G.A.T.T. proposal. Such reductions in the American tariff are

recommended as part of the negotiation of multilateral trade agreements while unilateral reduction of the tariff is recommended in the case of products either not imported into the United States or imported in negligible quantities. This latter provision condemns any remaining prohibitively-high tariff rates.

It does appear highly doubtful whether a further change in the provisions of G.A.T.T. mentioned earlier will be effected, namely the tightening of the escape clause. Here again American practice will be decisive and the Randall Commission has recommended the escape-clause and peril-point provisions in the existing American legislation should be retained. However, it has also recommended that the President be authorised to disregard Tariff Commission findings and recommendations under these provisions whenever required by the national interest. So it would be easier in future for a President to curtail the use of these clauses.

A further important issue arises in respect of the use of quantitative restrictions on trade. Quotas are not outlawed by the General Agreement but, with one exception, such restrictions must be applied on a non-discriminatory basis. That exception is found in Article XIV which begins: "The contracting parties recognize that the aftermath of the war has brought difficult problems of economic adjustment which do not permit the immediate full achievement of non-discriminatory administration of quantitative restrictions and therefore require the exceptional transitional period arrangements set forth in this paragraph." When the Contracting Parties last reviewed the use made of discriminatory restrictions by governments at its Eighth Session it was reported that twenty-two governments were exercising discrimination between sources of supply. The general tendency to intensify the restrictions had been first arrested and then reversed, and definite steps of relaxation had been taken by some countries whose balance of payments had improved. Some of the relaxations, for example, by the United Kingdom, Australia and a number of countries in Western Europe, related principally to imports from other soft-currency countries and to this extent the discrimination against dollar goods was actually sharpened, but many countries also enjoyed an improvement in their dollar payments position and thereafter applied the administrative control over imports from the dollar area with less severity. Relatively few governments, however, made any public announcement of a change in dollar import policy. The Contracting Parties had to record at the same time that some countries dependent on the export of primary commodities did not share in the general improvement in the world payments position. It was noted that in 1953 Brazil, Ceylon, Chile, Finland, Pakistan and Sweden had either to maintain or to intensify their restrictions in order to adjust their expenditure to reduced exchange earnings.

While it might be argued that the high level of world trade has been maintained because of the use of discriminatory restrictions, it is also true that these restrictions have incidentally afforded protection to domestic industries and thereby created vested interests which seek to retain the restrictions after their balance of payments purpose has become less pressing. Part of the upward revision of unbound rates of duty is a reflection of the protective effects of the discriminatory restrictions that are being abandoned. Even so it is becoming increasingly felt that discriminatory restrictions have a part to play in the longer-run and the earlier orthodoxy is increasingly criticised. The change of the weight of opinion might be explained in this way. Under the

Articles of Agreement of the I.M.F. the goal is the free convertibility of currencies on current account, this being the condition for a return to full multilateral trading with its attendant advantages for the international division of labour. Once convertibility was restored balance of payments deficits would be coped with by the use of the adequate monetary reserves held by countries supplemented by borrowing from the Fund. If the deficits turned out to be of longer duration exchange rates would be lowered in order to discourage importation and encourage exportation. Part of the change in opinion is due to the feeling that these methods of adjustment would be insufficient and unsatisfactory. The case is well put by Mr. Harrod in *The Bankers' Magazine* (October, 1954): "We have seen that what I have called 'the old medicine' (deflation, or simply allowing unemployment to develop), which appears to have been sufficiently potent to adjust our external balance in the old days, is now utterly unacceptable. The hopes pinned to devaluation or freely floating rates appear to have been excessive. The creation of the International Monetary Fund has not, as its founders hoped, provided a radical remedy, although it may well be of considerable service. It is hard to escape the conclusion that, so far as our wisdom has at present taken us, reliance will still have to be placed on import restriction as the cure of last resort for an external imbalance. This is particularly true of the period, of which we have unhappily not yet reached the end, in which the pattern of world trade has not adapted itself to a post-war equilibrium . . . the fact that the great underlying problems of international equilibrium remain unsolved . . . entitle us to maintain the right to use discrimination, as and when required, despite American pressure in the opposite sense."

It is possible to agree with Mr. Harrod's contention that Article XIV should be made part of a permanent G.A.T.T. and favour, as he does, the early restoration of convertibility. For what is wanted is an extra instrument for coping with balance of payments problems and one which has been consistent hitherto with an expanding volume of world trade. The argument is fully compatible with the Bretton Woods system and on this score is certainly ahead of American insistence of special concessions for their price-support policy in agriculture. Nor does the acceptance of this argument require general acceptance of a commercial policy based on the use of powers of negotiation and of bilateral arrangements. What some would wish to be the exception, those who hold the latter view would wish to be the rule not merely in the period immediately after the restoration of convertibility but in the long-run. For the United Kingdom this would be a highly dangerous expedient. Discrimination has been accepted hitherto as a transitional measure and has been free of counter-measures. If it were adopted as a long-run policy others would not remain benevolently neutral. Furthermore, the United Kingdom can only hope to sell sufficient exports in competition with others if the level of world trade is high. Any form of conflict in commercial policy would adversely affect the level of world trade and to that extent worsen the United Kingdom's chances of maximising its gains from trade. It might well be, of course, that in this respect the advanced industrial countries do not stand four square with the less developed countries. It was noted earlier that at a time when there was on balance a relaxation of discriminatory restrictions on the part of the more important trading countries several less developed countries found it necessary to increase restrictions. It may be argued that for countries relying on few export lines for which demand varies only slowly and

moderately with changes in price, exchange depreciation would be a poor tool for remedying balance of payments problems. For on the one hand it would require a lengthy period of time in which to work while on the other export prices would have to decline sharply and so adversely affect the terms of trade. Perhaps at Geneva something will be heard of this further argument for continuing permission for the use of discrimination.

These, then, are likely to be the main issues. A number of less central but nevertheless significant items may be found on the agenda. For example, experience, particularly in Europe, has shown that the provisions relating to export subsidies are weak and ineffective and there may be an attempt to reformulate them more precisely. Greater attention might be given to the relationship between the I.M.F. and G.A.T.T. The United Kingdom's special problem at Geneva is more likely to concern Japan than imperial preference. When the President of the Board of Trade returned from Geneva after the Eighth Session he was pressed from both sides of the House of Commons to demand release from the " no new imperial preference " rule before G.A.T.T. was accepted in permanent form. As mentioned earlier, no doubt part of this pressure arose from the " rough treatment " he received at the Eighth Session, but most, probably, came from those on the Left who hankered after a policy of bilateralism and from those on the Right who still desire a more closely integrated Commonwealth bloc. Mr. Thorneycroft was able to recall that the United Kingdom had put this suggestion to Commonwealth countries at the Commonwealth Conference in January, 1953, and found that the proposal was not supported. Indeed, the communiqué issued after that Conference had roundly declared that some of the Commonwealth countries " felt that such an approach would not advance the agreed objective of restoring multilateral world trade." It is perhaps not insignificant that little was heard of this proposal at either of the party conferences this year.

But the problem of Japan is very much alive. At the Eighth Session the United Kingdom Government was not prepared to accept Japan as a full member of G.A.T.T. Japan was given associate membership and thus could not claim full most-favoured-nation treatment from all contracting parties. This reluctance to accept Japanese membership was supported from both sides of the House of Commons. It is natural that Lancashire should enjoy the further extension of its shelter in colonial markets from the competition of Japan. Unless, however, Japan can be excluded from Commonwealth markets for a considerable time without serious economic disadvantage to us, it is doubtful whether the postponement last year was worthwhile. At the Geneva conference Japan's membership will again be raised. The United States fully supports her application and is prepared to give concessions in her own tariff in return for concessions given by other contracting parties to Japan. The United Kingdom would be within her legal rights under the General Agreement to exclude a new member from all or part of the benefits enjoyed by existing members. It is open to the United Kingdom and Commonwealth Governments to limit Japan's most-favoured-nation rights as the price of her entry. But if this attitude is adopted it would certainly arouse the worst fears in the United States and elsewhere that we in fact accept G.A.T.T. on the basis of limited liability.

November, 1954

Correspondence

CONVERTIBILITY PROBLEMS.

To the Editor of the Bankers' Magazine.

Sir,—Your readers will have welcomed the interesting and informative article on Convertibility Problems, contributed by Mr Harrod to the October issue of *The Bankers' Magazine*. Perhaps you will be good enough to allow me space for some comments.

Mr. Harrod's view (p. 307) is that " the ' old medicine ' (deflation, or simply allowing unemployment to develop) which appears to have been sufficiently potent to adjust our external balance in the old days, is now utterly unacceptable." And his conclusion is that " reliance will still have to be placed on import restriction as the cure of last resort for an external unbalance."

That import restriction must remain " the cure of last resort " cannot be denied. But Mr. Harrod apparently *has no other remedy* for an adverse balance. His view is that certain circumstances at the present time conduce to a situation favourable to convertibility, and that therefore " we should be thinking in terms of an early restoration . . . It would be very disappointing if we had not achieved it at the end of another quinquennium."

In the present year favourable terms of trade have helped us to maintain a precarious balance, not without resort to import restrictions. Our import restrictions have recently been relaxed (at any rate, within the European Payments Union), but the effects of the relaxation have hardly as yet been felt. And the favourable terms of trade are not likely to last. As soon as American industrial activity revives, world prices of materials, such as we import, will rise. Moreover, the prices of British manufactured exports paid for in recent months were for the most part quoted to cover the cost of materials purchased at prices higher than those of the contemporary imports. This disparity between the buying prices of imported materials and the selling prices of the exports containing them ceases when prices cease to fall.

It would be a mistake to take a favourable but transitory conjunction of circumstances as an opportunity for committing sterling to convertibility. The problem of convertibility, Mr. Harrod says (p. 300), is one " of developing in new circumstances and with new objectives a system of managing our monetary affairs that shall be relatively stable, relieve us of recurrent crises, carry its own criteria of guiding day-to-day policy and be, so far as possible in the world of to-day, permanent." Yet he has no " relatively stable " monetary system to recommend. The resort to import restrictions is a confession of failure.

Mr. Harrod rejects a monetary system based on Bank rate as one of deflation and unemployment. But the monetary system we have *is* based on Bank rate. The creation of money is based on the creation of credit, and the creation of credit is regulated through the short-term rate of interest. The system is from time to time thrown out of gear by the borrowing of a Government which is not amenable to the authority of the central bank, or to the influence of Bank rate. But still it is the only system we have.

It is not to be discredited by calling it "the old medicine." A medicine cures a malady. A rudder may be called a "medicine" when the ship has gone off her course and it is bringing her back to it. But it is not a medicine when it is simply keeping the ship on her course, nor is Bank rate a medicine when it is maintaining stable money. Deflation is resorted to when a monetary expansion in excess of what policy prescribes has been allowed to develop ; it is then a medicine called in to correct a disorder.

Mr. Harrod is surely right when he looks for "a system of managing our monetary affairs" as the solution of the problem of convertibility. The "recurrent crises" from which it is to relieve us are crises of the balance of payments. An adverse balance is a sign of excess spending and excess spending is to be corrected by a suitable restraint on the supply of money to the spenders. It is that restraint which Bank rate can supply without resort to vexatious controls. If the restraint is judiciously applied, and especially if it is promptly applied when needed, it prevents undesirable expansion without ever involving deflation and unemployment.

The restraint, to be effective, requires the Government itself to abstain from excess spending. If conditions at the present time are not sufficiently favourable to warrant immediate convertibility, that is because we are still suffering from inflationary Government finance. The recent issue of a long-term security calculated to appeal to investors rather than to banks was a step in the right direction, though a very small one.

Yours faithfully,
R. G. HAWTREY.

29, *Argyll Road,*
London, W.8,
October 9, 1954.

A rejoinder from Mr. Harrod to Professor Hawtrey's comments reached us too late and will be published in the December issue.—Ed.

Notes and Comments

COMMONWEALTH TRADE TALKS

On October 5 a short meeting of senior officials of Commonwealth countries opened at the Treasury in order to discuss the Commonwealth attitude towards the General Agreement on Tariffs and Trade, which will be reviewed by the Contracting Parties at the Conference due to open in Geneva on November 8. The talks were held in strict secrecy and no information as to their nature was divulged in the communique issued at their close. It is thought that the main issue debated was whether or not Commonwealth countries should develop inter-Commonwealth trade at the risk of similar methods being used by others, including the United States, to build up alternative trading blocs. It would appear from the recent statements of Ministers and leaders of industrial and financial organisations in this country that the strengthening of multilateral trading and the gradual reduction of barriers to trade between the Contracting Parties has found increasing favour here. This is, presumably, the meaning of Mr. Butler's cryptic remark that he wished "to regut G.A.T.T., not degut it." It would in that case not be surprising if Commonwealth countries try at Geneva to tighten the Agreement generally, in particular perhaps its

loose escape clauses. It is much less easy to see the likely attitude to the admission of Japan. If reports in Japanese newspapers since the Commonwealth talks closed are correct, it would appear that the Governments of the United Kingdom, Australia, New Zealand and South Africa will be prepared to accept the admission of Japan to full membership only on condition that they reserve the right to conclude separate bilateral agreements with Japan under which the application of the most-favoured-nation clause would be limited. Presumably any such action would be taken under Article 35 of the General Agreement. It would be vehemently opposed by the United States which supports Japan's admission.

HALF-YEAR'S REVENUE

MOST of the favourable trends which developed in the national accounts for the June quarter persisted in the second quarter of the current financial year. Ordinary revenue for the six months to September 30, at £1,782 million, increased by about £69 million, thanks largely to the better receipts from customs, excise and stamp duties produced by the freedom of markets and increased industrial and commercial activity. Since revenue collections to the date of the return represented less than 40 per cent. of those anticipated for the whole year, the increase of £69 million makes a satisfactory comparison with the Budget estimate of a rise of £165 million for the complete twelve months.

Ordinary expenditure makes an even better showing, a decline of some £9 million to £1,981 million for the six months contrasting with an expected rise of £249 million for the year as a whole. A reduction of over £5 million in the cost of servicing the national debt is a welcome feature of the figures, but total expenditure is so far below one-half of the estimate for the whole year as to suggest that payments by the defence or other departments have been delayed—in which case the greater part of the short-fall of spending will probably be overtaken before the end of March next.

Net capital expenditure, segregated " below the line," was about £194 million, a drop of nearly £32 million as compared with payments in the same period of 1953–54. This decline was due entirely to a reduction of £38 million in loans to local authorities, which amounted to £128 million, compared with an estimate of £300 million for the full year to March, 1955.

In sum, the figures show a reduction in the ordinary revenue deficit for the six months of £78 million to £199 million, and a fall in the overall deficit, including capital items, of £110 million to £393 million. As usual, however, the figures are no reliable guide to the outcome for the whole of the financial year. Speaking at the Conservative Party conference last month, the Chancellor of the Exchequer held out some hope of further economies in Government expenditure, but the longer-term outlook under this head is now clouded by the possibility of changes in British military commitments in Europe, involving additional costs to the Exchequer.

DECREASING GOLD RESERVES

THE sterling area's gold and dollar reserves continued to fall during September. They decreased by $17 million reducing the total to $2,901 million which is 75 per cent. of the last peak of $3,867 million in June, 1951.

During September defence aid receipts from the United States amounted to $9 million. $12 million were paid in gold or dollars to the European Payments Union in settlement of the August deficit and a further instalment of $2 million was paid by the Government to Britain's E.P.U. creditors as part of the repayment arrangements mentioned in the August issue of *The Bankers' Magazine* on page 88.

There has been a continuous decline in the United Kingdom's gold reserves since July totalling $116 million and reducing the total from $3,017 million to $2,901 million. But this decrease is small when considering that Britain made special payments of $215 million during the last three months ($99 million to E.P.U. creditors in July, a repayment of $112 million to the International Monetary Fund and payments of $2 million each in August and September to creditors of the Union). The balances with countries outside E.P.U. began to fall in August when they decreased by $5 million and continued to decline in September by $12 million. However, taking account of the normal seasonal pressures caused by large imports of dollar commodities such as cotton, wheat and tobacco, this decrease is very small indeed and indicates that the withdrawal of short-term funds by foreign holders cannot have been substantial.

On the provisional figures for the month the United Kingdom had a surplus of £6 million with the European Payments Union, which will fall to be settled in October, as to 50 per cent. in gold or dollars and as to 50 per cent. by reduction of Britain's debt to E.P.U. This surplus is due to the French Government's payment of the annual instalment of £8·6 million on its post-war debt to this country. Without it the balance with the O.E.E.C. countries would have shown a deficit of £2·6 million reflecting mainly British and sterling area tourist expenditure on the Continent.

BUOYANT U.K. PAYMENTS SURPLUS

The only new fact about our economic progress revealed by the Chancellor in his speech at last month's Mansion House banquet was that referring to our external balance. Mr. Butler announced that according to the White Paper we have earned a surplus on current account during the first half of this year of no less than £154 million excluding £24 million of defence aid. This compares with £123 million for the whole of 1953 and only £13 million of this amount were earned during the first half of that year. (Excluding £55 million of Defence Aid.)

As regards the internal position the Chancellor's speech was characteristic for its cautious optimism. Mr. Butler said that "we are certainly getting along quite well with strengthening our own internal position. When I last spoke here I said that we were steering a course between the primrose path and the waste land. That was between inflation and deflation. This year the primroses are a little bit nearer. I do not propose that we should dally to pick many of them. There is not much waste land in view, but we must be careful cultivators of our national estate."

Mr. C. F. Cobbold, Governor of the Bank of England, being in agreement with the Chancellor remarked that, in his opinion, "The economy is at the moment running at high speed, but still on a fairly even keel—with the barometer rather more towards inflation than towards deflation." He warned that "Too much should not be expected of the bank rate, its usefulness in recent years should not lead anybody to suppose that it can work miracles by itself or that it could offset the effects of wrong policies in other

fields." When speaking of convertibility Mr. Cobbold said that, to his mind, this is not an absolute question but a question of degree. " I do not see a great wall, behind which sterling is inconvertible and in front of which it is convertible. Rather do I see a long steeplechase course with fences to be jumped at intervals, some stiffer than others, but with a lot of steady plodding in between. Mr. Butler has wisely stressed that freedom for sterling is not an end in itself. It is part of a much wider policy in the economic and the international fields."

IMPORT OF STERLING NOTES

THE import of notes which are or have been at any time legal tender in the United Kingdom has been prohibited ever since exchange control was set up, and more than once in these pages we have maintained that a relaxation of this prohibition was the kind of move towards convertibility that would be understood and appreciated by people on the Continent. The authorities have now taken a step towards recognising that overseas holders of Treasury and Bank of England notes have rights. The step is belated because Germany has already opened her frontiers to DM notes held abroad; it is timid because the only notes favourably affected are (1) those of denominations of £10 and upward and notes of the denomination of £5 dated prior to September 2, 1944 and (2) any notes up to a maximum of £30 in all for any one traveller for non-residents who are leaving the United Kingdom after a temporary visit.

Group 1, provided they are received by post, can be credited to a sterling account appropriate to the sender's country of residence. So can Group 2, but these can also be exchanged for travellers' cheques and for foreign currency notes of the beneficiary's country of residence.

We do not propose to waste time repeating the inspired justifications of the official limitation that have been published. We welcome this forward step, but deplore its circumscribed extent.

TRAVEL ALLOWANCE

THE increase to £100 in the basic allowance for travellers has drawn the usual critical comment from all sides, generally to the effect that it is surely time now to do away with the irksome restriction altogether. We have every sympathy with this view, but since it is premature to expect complete exchange freedom—at least, in so far as movements of capital are involved—we wonder how the problem of distinguishing between bona-fide travel expenses and drawings for other purposes can be distinguished administratively. Given no limits for travellers, how would a local travel agency (or a bank in the centre of the City) handle an application for say, fifty business men to visit Munich for a conference, each asking for, say, £500, except to grant it? Yet it would not be able to approve an application to invest £1,000 in a business concern abroad unless there existed a special case for which the Control would give consent.

ENDORSEMENTS AGAIN

IT was announced last month that Mr. Graham Page, the member for Crosby, is hoping to introduce a Bill in the next session of Parliament which will amend section 77 of the Bills of Exchange Act so as to make endorsement of a cheque unnecessary when the cheque is paid into the payee's account. This news will doubtless have cheered the small band of enthusiasts

for endorsement reform, who have been discussing the matter off and on for the past twenty years or so. In the past five years the debate has been active, and the possibilities were explored in 1949 by an inter-bank committee. Their report was not published, but it is said that the committee favoured reform ; however the banks have not taken the initiative, and the ball is at Mr. Page's feet.

The discussion in recent years has turned on whether a new, non-transferable, instrument should be introduced, which would circulate at first side by side with the existing cheque and which might be expected eventually to supersede it, or whether instead the necessity for endorsement should be abolished, in whole or in part, by legislative action. It is significant that no one has suggested that it is desirable for the present system to continue ; nor does anyone, in these pages or elsewhere, seem to have disagreed with the argument advanced by a writer in *The Bankers' Magazine* in June, 1949, that the endorsement on a cheque serves no practical purpose whatever. It was later argued here that the introduction of a new instrument would bring unnecessary complications in its train ; and while the purists will no doubt continue to argue that all cheque endorsements could be dispensed with, the number of cheques which do in fact pass from hand to hand is so tiny a proportion of the whole that Mr. Page's compromise measure is probably the best practicable reform.

The attitude which the banks will adopt is believed to depend on whether there is any substantial evidence of public demand for change. It seems certain that the large organisations of traders, from the F.B.I. outwards, will come in with their support, qualified only with a question as to the effect of the new measure on cheques on which the endorsement serves also as a receipt. It will be interesting to see how Mr. Page proposes to meet this difficulty ; the banks themselves are not likely to make the point that there is no real justification for making them collect their customers' receipts. In practice, recipients of cheques would probably continue to sign receipts on the back quite willingly when asked to do so even if the compulsion, and the banks' supervision of it, were removed ; and in any case if the absence of an endorsement becomes *prima facie* evidence of payment to the payee's account the absence of a receipt would not seem to be a very substantial objection to the new procedure.

The hours spent in examination of endorsements, and the time wasted in returning cheques for irregularities in those endorsements, make a formidable total ; but the convenience of the banks is not the main issue. The private customer, who is not unduly troubled by the need to endorse the occasional cheques he receives, is not likely to add his voice to that of the trade organisations ; but he too might join the chorus if he came to believe that his endorsements are in fact quite pointless and that, while the endorsements on the cheques he issues are little or no protection to him, the absence of an endorsement may (if Mr. Page has any luck with his Bill) really mean something.

C.I.C. AND THE ROYAL BANK

QUITE naturally the refusal of the Capital Issues Committee to sanction the Royal Bank of Scotland's scheme to offer a small amount of capital to its staff has aroused fresh criticism of the Committee's activities and fresh demands that they should be brought to an end. The Royal Bank, having obtained permission to make a free issue of £1,700,000 of stock to its stockholders by capitalising reserves (see *The Bankers' Magazine* for September,

page 205 ; and October, page 316), has raised its issued capital to £5,950,000. It was the directors' intention to round off this sum to £6 million by offering £50,000 of stock to the staff of the group, which includes Glyn, Mills and Co. and Williams Deacon's Bank, but the chairman announced at the recent meeting that Treasury permission for the proposed cash issue had not been granted, and this part of the capital increase has had to be abandoned.

Technically, the last word on what capital may and may not be issued rests with the Chancellor, but there is no doubt that the real decisions are made by the C.I.C., which advises the Treasury. Many of the recent actions of the Committee have created wonder in the City owing to their apparent inconsistency, and have created frustrations among company directors when capital proposals which have everything to recommend them are turned down. Although the Committee is composed of able and highly experienced members, the fact that it never gives reasons for refusing capital increases adds to the annoyance and criticism its decisions arouse. Certainly, its refusal of the Royal Bank proposals looks odd in the light of the Prime Minister's subsequent statement at the Conservative Party conference that the Government welcomes schemes designed to give employees a financial interest in the industries they serve.

NATIONAL BANK OF INDIA

FROM time to time *The Bankers' Magazine* has the duty, pleasantly obligatory on the older generation, of welcoming newcomers. We can remember no better occasion for such a welcome than the appearance of the first number of *The N.B.I. Review*, a quarterly issued by the National Bank of India. There are too many publications to-day ; half of them tread on each other's toes and many will therefore disappear or, if subsidies support them, be ignored. Nevertheless, in spite of all this itch to write, year after year may pass and leave some obvious gap unfilled. It surprised us in pre-war days that none of what used to be called the Eastern Exchange Banks thought it worth while to issue a periodical to describe its activities and the changes and chances affecting the area where it had its offices. Since 1945 this absence of a British " case stated " has alarmed us in view of the rapid growth of indigenous banks, with many of whom the first thought has been the production of a bulletin devoted, quite legitimately, to the statement of an indigenous point of view. As far as India and Pakistan are concerned this unhappy situation should be changed as a result of *The N.B.I. Review*, a publication which, by covering East Africa, will also supplement good work being done elsewhere.

This first number is a good one. Every article and note has a reason for being there—a great editorial virtue—but we would particularly praise the opening pages setting out the Review's scope and purpose. If the N.B.I. will only live up to the aims it has proclaimed its journal will be of great value. The editor will probably be subjected to many blandishments, and see many tempting side roads with attractive labels. We hope he will prove adamant, for if he sticks to his last he will produce something that is really wanted. What we in Britain need is considered opinions about the economic situation and outlook in the countries where the N.B.I. operates (not statistics and market reports—there are plenty of these) and we venture to hope that at least one other British Bank operating in the East will be spurred into quarterly rivalry, so that from time to time we can get that clash of opinion that strikes out truth's brightest sparks.

ALLOTMENT LETTERS

THE recent heavy crop of allotment letters arising from the capitalisation of reserves focuses attention on the need for uniformity in the printing of these documents. There are several important dates to be noted for each issue, and most companies print them in a compact form on the first page, but there is no generally accepted position, prominence or style for this display. Also, the body of most allotment letters is a mass of closely printed instructions which compel the waste of much valuable time in the search for a small piece of information. How much better it would be if all paragraphs were given bold margin headings, and by agreement all standard information were to be set out in an agreed sequence.

There should also be uniformity in requirements. For example, in a fully paid bonus issue there can be no need for the original allottee to take any action whatever for registration in his name, but not all allotment letters say so, and not all companies accept the fact.

The risk of loss through failure to attend to a printed direction emphasises the importance of uniformity, so that those who have to handle these documents shall know their way about with absolute confidence. This is a matter that might well be the subject of a direction by the Committee of the London Stock Exchange.

NATIONAL SAVINGS ANNUAL REPORT

THE United Kingdom's improved internal and external economic situation was also reflected in the figures for National Savings for 1953–54 which have now been published in the Annual Report of the National Savings Committee. Whilst in 1952–53 dis-savings amounted to £33·8 million, in 1953–54 new savings exceeded repayments by £28·6 million which is the best figure since 1949–50 when net savings totalled £29 million. This improvement is to a great extent due to increased savings banks deposits. Aided by the stimulus of a revival in special investment department business in the Trustee Savings Banks the latter showed an excess of new savings over repayments of £8·3 million (compared with net dis-savings of £14·7 million in 1952–53). The excess of withdrawals over deposits of the Post Office Savings Bank fell from £117 million to £87·75 million. There was another satisfactory increase of 4,188 in the number of savings groups during the twelve months bringing the total to 179,908.

ANOTHER DIVIDEND INCREASE

THE MIDLAND BANK LIMITED announce that provided no unforeseen circumstances occur to prevent it, the dividend this year will be 2 per cent. higher than last year's.

Overseas Notes and Comments

THE BANKING HALF-YEAR IN WESTERN GERMANY*

SINCE the reorganisation of the German "big Three" banks in September, 1952, which reduced the number of successor banks of the former Deutsche Bank, Dresdner Bank and Commerzbank to three each in the area of the Federal Republic, balance sheet figures of the large banks

* See also the article "The Growth and Activity of the West German Successor Banks", Hans-Joachim Panten, *The Bankers' Magazine*, August, 1954.

are again available to the public. During the first years, only annual figures were available whilst since the summer of 1953 the successor banks of the "big Three" banks as well as three more large banks (Bayerische Hypotheken- und Wechsel-Bank, Bayerische Vereinsbank and Berliner Bank A.G.) are again publishing their balance sheet figures every two months so that it is now possible to keep fairly up-to-date with the development of banking during the course of the whole year.

The figures of June 30, 1954 show some remarkable tendencies. The increasing balance sheet total of all nine successors of the big banks are shown in the following table :

Date	Total Balance Sheet Figures
January 1, 1952 . . .	DM 7,900 million
December 31, 1952 . .	DM 9,500 million
December 31, 1953 . .	DM11,600 million
June 30, 1954 . .	DM12,100 million

As can be seen from this table the balance sheet total increased by only DM500 million from DM11,600 million in December 31, 1953 to DM12,100 million in June 30, 1954. The rapid expansion of the preceding years has therefore considerably slowed down during the first half of 1954.

This trend stands out more clearly from the fact that the total deposits increased by only DM344 million compared with an increase of DM1,870 million during the whole of 1953. In addition, this increase is mainly due to constantly increasing savings deposits, whilst demand deposits decreased by DM37 million. Term money which amounted to considerable sums in 1953 due to relatively high interest rates, increased only fractionally. As a result of a further reduction of credit interest, part of this money has probably been diverted to the capital market.

The effect of this was to retard the expansion of advances. In fact only loans have increased whilst advances against bills of exchange remained more or less stable. As a result of the continuing liquidity of the money market, the West German banks kept the bills of exchange discounted by them in their own portfolios, so that rediscounts by the Central Banking System continued to decline. For the same reason, only a small part of the bills of exchange resulting from acceptance credits of the banks were put into circulation. Due to the shortage of interest-bearing securities available to purchases in the money market, the banks increased their holdings of their own shares. This development arose from the advantages which are at present still applicable to a large part of fixed interest-bearing securities. However, the plansfor a tax reform which are at present considered by the *Bundestag* provide for an almost complete removal of these privileges.

Stock Exchange quotations for the successor banks' shares have recently risen considerably as dividends are not expected to be lower this year than the high one of $8\frac{1}{2}$ per cent. declared in 1953. In addition, shareholders expect to receive rights to acquire newly issued shares as most banks have expressed their intention, to put their capital into a better relation to their considerably increased volume of business when the time is considered appropriate. New shares have already been issued by the successor

of the Commerzbank for the area of South Germany, the Commerz- und Credit-Bank A.G. in Frankfurt, which recently increased its respective capital by DM5 million to DM15 million.

A detailed account of the development of the total balance sheet figures is given in the following table :

BALANCE SHEET TOTAL

(in DM million)	1.1.52	31.12.52	31.12.53	30.6.54
Norddeutsche Bank	748	858	1,027	1,137
Rheinisch-Westfalische Bank	1,549	1,848	2,241	2,307
Suddeutsche Bank	1,461	1,782	2,162	2,350
Deutsche Bank Group	3,758	4,488	5,431	5,794
Hamburger Kreditbank	654	726	863	896
Rhein-Ruhr Bank	965	1,188	1,386	1,340
Rhein-Main Bank	901	1,161	1,404	1,521
Dresdner Bank Group	2,521	3,075	3,653	3,757
Commerz- und Disconto-Bank	407	429	542	578
Bankverein Westdeutschland	884	1,140	1,482	1,468
Commerz- und Credit-Bank	290	346	493	537
Commerzbank Group	1,581	1,915	2,516	2,583
Total	7,860	9,478	11,600	12,134

EGYPT AFTER THE SUEZ TREATY

By the terms of the Anglo-Egyptian Financial Agreement of July, 1947, Egypt went out of the sterling area and the long-standing connection between her currency and sterling was severed. It would be a useless crying over spilt milk to lament in detail the manner in which political and diplomatic errors on both sides have neutralised the will to co-operation which has always been evinced by the commercial interests in both countries in spite of the difficulties raised by the break in the currency link. Now at last, by the signature of the treaty dealing with the future of the Suez Canal, it may be possible to expect a return to something approaching confidence in mutual trade. The repair of the damaged lines will take time, however, and both parties must remember that there are still some unresolved problems. The biggest one is the status of British enterprises and British personnel in Egypt and the Sudan. If these interests are fairly treated, we shall be nine-tenths of the way to cordial co-existence ; if they are going to be harassed, then commercial relations are bound to suffer.

In spite of attempts to diversify production, Egypt is, and will long remain, overwhelmingly dependent on cotton. The 1953–54 season ended at the close of last August. Export sales were not unsatisfactory and the carry-over into the new season was 290,000 bales compared with 450,000 twelve months earlier. One cloud on the horizon exists, however, for the Sudan still holds large unsold stocks which may adversely affect future sales.

The United Kingdom is likely to continue to be the most suitable large buyer and it is worth while for Egypt to remember that unless her selling policy is realistic the results may be unfortunate for her. If she is short of current sterling, as she has been for the past two years and more, it is because of insufficient cotton sales, and in the recent past trouble has come quite as much from a misjudgment of the market as from the fall in prices after the Korean boom.

November, 1954

The balance of payments situation has recovered from the mess it got into in 1952, when there was a deficit of £56·6 million. In all probability (thanks largely to Suez Canal dues) the present year will show a surplus. Egyptian exports to Britain are in process of recovery and our manufacturers are already seeing an increase in orders. But the pattern of British exports will be different. Textiles will be discouraged by Cairo; the preference is for production goods. This tendency is world-wide and a revolutionary government must be expected to be devoted to "development". Big schemes are on paper and some of them will be put into execution, thereby setting up an intensified demand for experts, public works and constructional materials. As Britain has abundantly shown during the past eight years or so, she is still pre-eminent in the skills associated with this kind of enterprise but competition from other countries will be keen, a reminder that, other things being equal, it is harder to sell outside the sterling area than within it.

SOUTH AFRICA RELAXES IMPORT RESTRICTIONS

WHILE Australia is prematurely tightening her import belt, the Union of South Africa—another volatile market—has felt free to give a greater measure of freedom. The Union's balance of payments showed a marked improvement during the first half of this year compared with the corresponding period of 1953. Foreign exchange resources increased by £13 million compared with a decline of £27 million: this was due not only to increased foreign investment but also to an improvement in the balance of trade which had taken place in spite of larger imports. Net capital formation in the Union during 1953 was of the order of £300 million, perhaps £80 million lower than in the boom period of 1951. The Senior Trade Commissioner recently stated that 1954 can also be expected to yield a surplus of receipts and, looking ahead, he predicted a two or threefold rise in the income from minerals. Gold holdings are still increasing and the ratio of gold reserves to public liabilities is now about 60 per cent., so the easing of import restrictions seems to be a safe move. The concession has not received much of a welcome from the importing interests, who regard the actual relaxations as inadequate, but it nevertheless looks as if United Kingdom sales in certain big lines (cars, for instance) will increase. During the first eight months of the present year our exports to the Union, at £109 million, were about equal to those in the same period of 1953. Apart from Australia (£187 million) it has been our biggest single market and must be carefully nursed, if only because the main protection our manufacturers enjoy is good-will built up on quality and service.

CANADIAN PROGRESS

THIS year the surging roar of development in Canada has changed to a steadier hum; it is certainly in marked contrast to the sounds of booming activity in the last decade, but it is undoubtedly a strong and unfaltering note.

Progress in recent years has been quite remarkable. Since 1939 the population (including Newfoundland and Labrador since confederation in 1949) has increased by nearly four million to over 15,000,000 and physical output has more than doubled. Fresh discoveries and new techniques have continually revealed further evidence of the abounding natural resources of the vast country—oil and natural gas in Alberta, titanium

and iron ore in Northern Quebec and Labrador, to mention a few examples. In August this year work was started on the St. Lawrence power project, while construction of the sea-way proper is planned for 1955. During this time rapid industrial expansion has been taking place which has given the country a strength and resiliency that can come only from a broadly based economy. The period of most rapid expansion may well be over, but progress is assured. This year capital expenditure is estimated at $5,838 million, even larger than last year's figures, which were about 23 per cent. of the gross national product.

This year, or more precisely towards the end of last year, expansion was interrupted. Canada was feeling the effects of the recession in the United States. In the first five months of 1954 industrial production was nearly 5 per cent. below the average for the whole of last year and unemployment figures showed a sharp rise. Iron and steel and textiles have been the most seriously affected industries. More recently production generally has shown signs of recovery, though last year's record levels have not been regained.

Some concern is being expressed in Canada at the size of the adverse trade balance. In 1953 there was a visible deficit of $28 million—in sharp contrast to a surplus of $427 million in 1952. Although the value of exports declined a little, the main cause of the swing was the marked increase in the value and volume of imports. This change in the trade balance was reflected in the balance of payments, which dropped from a surplus of $164 million in 1952 to a deficit of $439 million last year. Striking though this change appears, Canada is a developing country and a payments deficit is neither unusual nor does it suggest anything inherently unhealthy. In fact, the entire deficit was more than covered by the inflow of capital, principally from the United States. This year trade has been at rather lower levels and the visible deficit for the first five months has been reduced to $64 million, compared with $119 million in the same period last year. It is significant that the net inflow of foreign capital has continued at an increased rate.

Canada depends to a large extent on world trade and the authorities are understandably anxious to expand exports. Many of the difficulties now being experienced by Canadian exporters will disappear when convertibility sweeps away the artificial barriers between the dollar and sterling worlds.

AUSTRALIAN IMPORT CUTS

Two months ago a note in these pages commented on the Australian trading and fiscal year which closed at the end of June. There was a budget surplus in spite of tax reductions. and the third highest wool cheque on record. Newspaper correspondents wrote in such a very cheerful vein that their readers might be forgiven for forgetting recent history. Almost alone *The Bankers' Magazine* thought it right to warn exporters of the volatility of this Australian market. Exactly a month later the Commonwealth Government announced that import controls were to be tightened because there had been heavy over-buying of various kinds of goods. The effect of the new orders is that importers of unassembled motor cars, of carpets, sewing machines and several other types of merchandise have suddenly learnt that their quotas for the current licensing year to 31 March, 1955, are exhausted, while exporters are left high and dry with frustrated expectations. *The Times'* Canberra correspondent

described the new restrictions as mild but gave a warning that they might be the forerunners of stricter control later. But it must be remembered that numerous categories of goods were already subject to cuts imposed in 1952, so that every further cut, however " mild," will be an aggravation of an already existing difficulty.

Whether we are in for another spell of drastic trouble like that of two and a half years ago will depend on how much Australia can earn during the export season now in its early phase. Above all, what will primary exports bring in? They account for over 80 per cent. of all exports, and during the past trading year wool earnings amounted to nearly half Australia's entire export income. In an article dealing with export prospects, the October number of the *Quarterly Survey of the Australia and New Zealand Bank* states that the current wool clip should be somewhat larger than last year, so that unless there are material price declines wool should earn as much as in 1953–54. Given the good statistical position, Australia's dominance as a supplier of fine wools should ensure a pretty good year. The United Kingdom, which last year took over 25 per cent. of last year's exports, has shown no sign of holding off and, with the possible exception of Japan, other buyers look like maintaining their interest. Thus there seems little in the wool situation to justify a resort to increased import restrictions.

Wheat is next in importance, though it now accounts for a mere 7 per cent. of total exports—say £A60 million. Here the outlook is very uncertain, as is that of dairy produce. But it is unreasonable to cry " Wolf " because everything is not booming all the time. The prospects for meat and metals are good and several of the smaller categories still have willing buyers. As long as the central bank's gold and balances abroad figure is above £A400 million there appears to be enough in hand to make unnecessary this fresh bout of interference with normal trading, an interference of the most damaging type, and one cannot but wonder how much of the passion for slashing the import of manufactured goods draws its strength from a desire to protect high-cost secondary industries.

THE COLOMBO PLAN: TECHNICAL CO-OPERATION 1953–54

THE report by the Council for Technical Co-operation in South and South-East Asia for the twelve months to June 30, 1954, was recently published by H.M. Stationery Office and should be read by all who have business dealings with the region in question. The scheme for technical co-operation had its inception in 1950 when various members of the Commonwealth came together and agreed on a general plan which took its name from the town of Colombo, where the Council held its first meeting. The co-operating countries agreed to supply technical assistance to a total value of about £8 million, and within a short time they were joined by most of the non-Commonwealth states from Nepal to the Philippines. Originally the scheme was to operate until the middle of 1953 but it was latter decided to make it co-terminus in 1957 with the economic development programme of the Colombo Plan (a much more massive affair) without involving any additional financial contribution by any member country. The purpose of the scheme is to provide experts, training facilities and equipment, the negotiations for their provision being conducted bilaterally by the Governments immediately concerned. The scheme is only one of the sources of technical aid in the area and among the past year's tasks

has been that of strengthening co-operation between the agencies and the avoidance of duplication and competition.

The demand for experts has been heaviest in the field of medicine and health. Experts in engineering, food and agriculture, transport, and technical education follow close behind. Altogether 502 have been applied for and 263 provided. The United Kingdom has supplied 115, Australia 66, Canada 45, New Zealand 30 and India 7. An important development is the increasing demand for experts to take executive responsibilities in addition to offering technical advice. The strain on the limited supply has evidently been considerable and the Council has been driven to suggesting that member countries could perhaps make more use of firms of consultants and thus obtain, all at once, a range of experience and skill rarely found in any one person.

The equipment provided under the scheme is for use by the experts or for training and research purposes. As the scheme has progressed so have the applications for equipment increased. The most frequent requests are for laboratories and technical and agricultural schools, but the communications problem is illustrated by the demand for radio equipment for civil aviation in Indonesia, where rail and road are insufficient to meet developing needs.

Valuable as are equipment and visiting experts, the end-object is an indigenous body of men and women trained to improve their countries' agriculture, government administration, schooling and health. So far, 1653 trainees have been put under tuition. Most of them are graduates with a background of experience which enables them to benefit from advanced courses. The United Kingdom has taken over 600, India 137, and so on. The value of the consequent "mixing" is great, for quite apart from anything else it is creating a kind of equality within a common service to mankind. As and when their courses are completed these trainees will go back to their own countries, or perhaps even to other countries within the Plan, to increase agricultural production, to promote new occupations, to carry out irrigation and power works together with improved methods of transport and communications. These activities lie at the heart of the economic development envisaged by the Colombo Plan. They are costing, and will cost, immense sums compared with which the amount expended on the technical co-operation scheme will be a mere drop in the bucket. But the modest outlay on the Council's work is no measure of the impact, for technical co-operation is applied at strategic points and the expert often proves a catalyst of an entire project.

Since the annual report appeared, Japan has become a member country, and this is all to the good. There are also suggestions of surplus commodities' assistance from the U.S.A. Such aid is unlikely to be welcomed at a time when American diplomacy is being regarded with a hostile eye by so much of South Asia and it is to be hoped that the proposal will be shelved or modified.

B.W.I. DEVELOPMENT

THE British West Indies stretch in a 2,000 mile arc through seventeen degrees of latitude, from Florida to Venezuela. If the mainland colony of Guiana in included with them the southern boundary lies against Brazil almost on the equator. The population of the West Indies is made up of several races and mixtures of races but the balance between the various groups differs markedly from island to island. Thus distance, climate and human relationships

all conspire to prevent the creation of the wide base of common interest needed to support either a formal federation or a unified economic policy imposed from Whitehall. The alternative has been a compromise between separate consideration of individual colonies and the application of a general policy (with modifications) whenever possible. In pursuance of this latter aim, a body called the Development and Welfare Organisation in the West Indies was set up fourteen years ago. Its task is fourfold: (*a*) to help the British Caribbean governments in the preparation of schemes for assistance under the Colonial Development and Welfare Acts; (*b*) to provide those governments with expert technical advice; (*c*) to foster mutual consultation for regional development through meetings of the Caribbean Commission; (*d*) to prepare periodic reports on economic and social progress.

The latest report, covering 1953, has just been published (H.M.S.O. Colonial No. 310, 4*s*. 6*d*.). In the 13 years to March 31, 1953, grants under the Acts mentioned above totalled nearly £28 million—not a bad record for a Britain that has had to struggle through a terrible war and an overloaded subsequent peacetime. The absence of a central governing authority has made the utilisation of this aid more difficult and less fruitful than it might have been but considerable progress had nevertheless taken place. The immediate short-term aim is to reduce the cost of living, which is anything from 2½—3½ times as high as it was in 1939 and presses heavily on the great mass of agricultural workers. There has been over-concentration on export crops and a consequent neglect of home grown supplies: that has meant excessive imports of food to the detriment of more valuable merchandise.

But whatever is done, sugar will remain the most important product of most of the islands. The West Indies have a protected quota of 900,000 tons under the Commonwealth Agreement which will this year be paid for at the rate of £41 a ton. This is a slight drop from the price for the substantially smaller 1953 quota but it compares well when seen against the £11. 5*s*. of 1940 and the £30. 10*s*. given ten years later. As the estimated production for 1954 is little more than 1 million tons, little of the Indies' sugar will have to face the chill air of the open market.

Other important export products are rice (Guiana), oils and fats, mineral oil (Trinidad), bauxite (Jamaica), and bananas. Some of these give rise to considerable industrial activity. Trinidad has nearly 400 industrial undertakings and Jamaica 700 factories. Imports of machinery already exceed £10 million per annum and the 1952 Lincoln Steel Mission expected a rate of industrial progress during the next decade comparable to that which took place in Argentine and Brazil between 1930 and 1940. Much will depend on communications. This means air lines and regular shipping services. The report now under review shows civil aviation has gone little further than good intentions, but the outlook for shipping has been improved by the decision a month ago to revive an inter-island service as from next January. This will facilitate the task of our exporters, for it should reduce the delays and expense consequent on transhipment. During the present year British sales have been running at an annual rate of £48 million (including Guiana and Honduras) and cover a very wide range of goods. Sources of information in London are numerous and well-developed, and the system of guaranteed prices for sugar and other products is an insurance against the risk that the bottom will fall out of the market.

Investment by the Nationalised Industries

By S. Please

ARE the nationalised industries investing too much? The gas and electricity industries' recent requests to Parliament for increased borrowing powers amounting in total to £900 million has provided further ammunition to support charges of extravagant, wasteful and uncontrolled capital expenditure by the public corporations and counter-charges that the nationalised industries, unlike private industry, are making the necessary foresighted efforts to increase the nation's productivity. A statistical analysis cannot prove or disprove either charge without introducing political and other non-objective considerations. On the other hand without quantitative information no attempt to defend or reject either charge is worth the paper it is written on or the breath with which it is uttered. Hence this brief survey.

The following table brings together the important national aggregates for this purpose.

INVESTMENT IN THE BRITISH ECONOMY, 1949–1953

Year	Gross National Product (i)	Gross Domestic Capital Formation (ii)		Gross Domestic Fixed Capital Formation (iii)		Gross Industrial Fixed Capital Formation (iv)		Nationalised Industries' Fixed Capital Formation (v)	
	£m	£m	% of (i)	£m	% of (i)	£m	% of (i)	£m	% of (iv)
1949 .	10,970	1,579	14%	1,544	14%	1,061	10%	264	25%
1950 .	11,545	1,466	13%	1,682	15%	1,179	10%	289	25%
1951 .	12,715	2,466	19%	1,866	15%	1,297	10%	315	24%
1952 .	13,738	2,116	15%	2,066	15%	1,374	10%	358	26%
1953 .	14,796	2,534	17%	2,333	16%	1,495	10%	431	29%
TOTAL	63,764	10,161	16%	9,491	15%	6,406	10%	1,657	26%

The initial comparison of national investment to gross national product shows that we used over the course of the five years something like one-sixth of our resources to replace and extend the capital stock of the economy. But this includes those resources employed in producing stocks of goods and work in progress as well as those which produced so-called social capital of which housing construction is the dominant item. Neither of these two items of investment directly increases the technical efficiency of industry upon which economic progress and increased competitiveness of our industries in world markets (devaluation or deflation apart) depend. It is by constructing more and better works, vehicles and equipment for our basic industries, our manufacturing industries and our distributing industries that this can be achieved. For this reason

columns (iii) and (iv) are included to show domestic investment after excluding firstly the volatile item represented by changes in stocks and secondly housing and other social capital formation which has accounted for approximately a third of all fixed investment.

We are left in column (iv), then, with expenditure on the replacement and extension of our industrial capital stock. It is impossible to separate replacement from extension of capital due to the notorious difficulty of computing a reasonably accurate figure of depreciation in a period of changing prices. Together these two items absorbed a tenth of our resources from 1949 onwards. To this industrial investment the nationalised industries have contributed approximately one-quarter, a proportion which remained fairly steady until 1953 when it rose to 29 per cent. These estimates are made after excluding what threatens to become the shuttle-cock of iron and steel from the public sector.

Given the total amount of industrial investment—i.e., assuming the level of national public and private savings and of house building as unalterable—is this too much, too little or just about the right amount to be devoting to the expansion and maintenance of the industries providing our basic services of fuel, power and transport? The question is one of the relative share of these industries in the total investment account, not the absolute level of investment in their capital stock. In particular we must consider whether this investment is too large or too small compared with that in manufacturing industry, for the provision of basic services to industry should keep in step with industry's ability to use them effectively. Just as a horse's productive effort is largely wasted without a cart to pull or in pulling a broken-down one and likewise a jet engine is useless in an obsolete air-frame, so the increased efficiency or supply of our basic services will be wasted if they are used in conjunction with out-of-date machinery or if the supply of this machinery, etc., is inadequate for taking up the supply of basic services forthcoming when they are being supplied at minimum average costs. And *vice versa*, investment in manufacturing industry will be wasted if it is not served by an adequate supply of efficient basic services. Have our national investment accounts in fact been out of step in this regard?

No objective criterion can be established which will enable us to answer 'yes' or 'no' to this question. But we can attempt to set up an approximate yardstick, deviations from which must be justified by specific circumstances or explicit political and social considerations.

Investment is, of course, undertaken in order to produce an output of goods and services so that we can start our search for a yardstick by relating the monetary value of investment in fixed capital assets by the public corporations to the monetary value of their net output. Net output means in this context the factor cost value of their sales minus the value of materials, semi-finished goods and services bought from private firms which must, of course, be counted as part of the output of the private sector not of the public sector. This relationship for four post-war years is shown in the following table.

NET OUTPUT AND GROSS FIXED INVESTMENT OF PUBLIC CORPORATIONS.

Year	Net Output (i)	Gross Fixed Investment (ii)	(ii) as Per cent. of (i) (iii)
	£m	£m	%
1949	917	266	29%
1950	996	293	29%
1951	1,275	363	28%
1952	1,391	410	29%
TOTAL	4,579	1,332	29%

A similar comparison can also be made for manufacturing industry the outcome of which is presented in this next table.

NET OUTPUT AND GROSS FIXED INVESTMENT OF MANUFACTURING INDUSTRY.

Year	Net Output (i)	Gross Fixed Investment (ii)	(ii) as Per cent. of (i) (iii)
	£m	£m	%
1949	3,903	383	10%
1950	4,292	446	10%
1951	4,881	523	11%
1952	4,859	550	11%
TOTAL	17,935	1,902	11%

Thus whilst public corporations have invested an amount representing about 29 per cent. of the value of their output, manufacturing industry has only invested something like 11 per cent. of the value of its output. But this difference reflects in part, at least, the obvious fact that the production of electricity, gas and transport and to a lesser extent coal (the four industries which dominate the economic activities of the public corporations) requires considerably more equipment per pound value of output than most manufacturing production. The best guide for assessing this difference is to take the comparative rates of development in other countries. Ideally an average of the differences found in several other countries would be desirable. Unfortunately the only country which provides sufficient information to enable this calculation to be made is the United States. In a way this is an admirable comparison for in that country most of the basic services in which we are interested are provided by private enterprisers who will, we can assume, be guided in their investment policy by the normal commercial considerations. In any case, so many economic studies in this and other countries and by bodies such as O.E.E.C. take the United States as their standard, that this is in itself almost sufficient justification for its use here.

The analysis reveals that in the U.S.A. whilst gross capital formation in mining, transport and utilities has amounted in recent years to 39 per cent. of their net output, in manufacturing the proportion has been 15 per cent. Both these figures, of course,

reflect the oft-mentioned fact that industrial investment in the States is significantly higher than in this country. Nevertheless, by a most remarkable coincidence, the ratio of gross investment to net output in manufacturing has been 38 per cent. of that for basic industries in both countries. The international comparison is, of course, crude and there is certainly nothing other than coincidence in the absolute identity of the proportions in both countries. However, to argue that we are investing too much in our basic nationalised industries necessitates arguing either that America is doing likewise or that there are particular factors operative either here or in the States which make a lower level of investment in these industries desirable in this country. These factors would have to be sought in such things as differences in the type and quality of natural resources and differences in the outcome of historical development including particularly war and post-war history. Alternatively it necessitates arguing either that the public corporations are so efficient that they require less capital equipment to produce their output than they would if run under private ownership or alternatively that in U.S.A. basic industries are in general run less efficiently than manufacturing industries.

It would, quite obviously, require a very detailed and comprehensive study to analyse all the relevant factors and to attribute each of them with its due weight. Although no such enquiry seems to have been undertaken, bodies such as the O.E.E.C. have repeatedly emphasised the need for heavier investment in the basic industries of European countries including the United Kingdom. If anything, therefore, a consideration of the relevant factors seems to have suggested to these bodies that a higher relative emphasis on investment in these industries in this country compared with the United States is desirable. This need has arisen aside from questions of whether the industries are predominantly in private or public ownership.

It does seem, then, in the absence of convincing specific arguments to the contrary, that we have not permitted too large a slice of our investible resources to be devoted to the basic industries in general.

Liverpool University. S. PLEASE.

A Century of Banking in the East

THE centenary of the Chartered Bank of India, Australia and China has been marked by the issue of its history* which will for many years remain a book of reference to serious students of banking. The author was faced with the problem that always besets the path of specialist historians—how far to diverge from the main theme to inform the contemporary environment of his subject. Should the principal chapters in the growth and expansion of the Chartered Bank be told as a chronological history, or should an account be given of the economic changes into which the history of the bank could be fitted ? Whilst the latter would make an interesting study for the economist, it would need more than some 300 pages—and would need specialist treatment. Moreover, since the bank operated in such diverse fields as India, the Philippines,

* *Realms of Silver : One Hundred Years of Banking in the East*, by SIR COMPTON MACKENZIE. (Routledge & Kegan Paul, 1954. Pp. xiv + 338. 25*s*.).

Siam, China, Burma, Japan and Singapore—and other places—there would be no end to the material that would need to be collected. In the final result, one fears that the history of the Chartered Bank would become a history of many eastern countries.

Even as it is, the book is so full of detail as to make it difficult to decide where its chief interest lies. Each reader, one feels, will have his own preferences. Some may like the glimpses of engaging, and frequently historically important, personalities whom the author describes, beginning with the founder of *The Economist*, James Wilson, who was one of the first to influence the establishment of the Chartered Bank. Others may like to follow the fortunes of individual branches, for example, the vicissitudes of the Hongkong branch during the opium frauds. There is interest, too, in the bank's note issues—how sometimes they were taken but reluctantly, whilst at other times the demand for the paper became an embarrassment. Yet through bad times and good, the Chartered emerges as a tower of strength in, sometimes, shaky economies. One can but admire the way in which these grand old banks upheld to the full the British reputation for honesty and stability.

Practising bankers will find many a lesson in such histories. The Chartered had to select its agents and branch managers with the utmost care. In 100 years of banking it occasionally made a wrong choice, but on such few occasions that one can only marvel at the method of selection. It is clear that character and ability in its local managers contributed largely to success. All banks to-day have travelling inspectors of branches. Over long distances—especially when communications were primitive—the inspectors of the Chartered journeyed from branch to branch so as to report back to London on the efficiency or otherwise of the branch and its officers, performing the dual function of audit and inspection for the benefit of the general management, and by advising them of local conditions to make life easier for misunderstood local officials. Such inspectors, if sympathetic as well as critical personalities, can do much to make a bank great.

The problem of providing suitable premises in undeveloped countries caused many anxieties to local managers and agents. Probably none of these surpassed the exasperations of the Crosby Hall episode. Surmounting the legal difficulties of a restrictive Charter, the bank in 1907 purchased the site of Crosby Hall and the annexed Chambers, only to find itself upbraided for proposing to use the site for new premises. Eventually the historic building was preserved by re-erecting it in Chelsea where it stands to this day.

The book contains an interesting story of the Indian currency controversy, in which J. H. Gwyther took a leading part. Formerly an enthusiast for the gold standard, Gwyther subsequently espoused the cause of bimetallism, to which Gladstone was opposed. The student will follow this phase of Indian currency history with interest, especially the setting up of the system of Council drafts, and Reverse Councils.

The typesetting of the book is particularly attractive, and the production, illustrations etc., first class. The author has striven to get the utmost interest into the story and has succeeded in presenting a lively account of the bank which holds the interest. There are occasional irrelevances; for example, in discussing an instance of competition between the Chartered and the Mercantile, he adds: " One may evoke in fancy with a pensive smile the atmosphere at dinner parties sometimes on tropic evenings in Java long ago ". Yet the broad effect is of a proud story, fascinatingly told.

November, 1954

Currency, Banking and Finance in Libya

UNTIL the present century, Libya was for many hundreds of years under the suzerainty of Turkey. Little attempt was made by the Turks to do more than control the coastal towns. Italy occupied Tripolitania in 1912 and later exercised domination over Cyrenaica. The Italians made some attempt to extend their administration of the two territories to the inland areas, particularly in order to augment receipts from taxation. With the expulsion of the Italians and Germans early in 1943 during World War II, the coastal provinces of Tripolitania and Cyrenaica were occupied by the United Kingdom and the inland province of Fezzan by France. The occupying powers retained absolute control over their respective territories until September, 1949, when the United Kingdom transferred responsibility for matters of local concern in Cyrenaica to the Amir, assisted by a Council of Ministers, while France took a somewhat similar step in the Fezzan. Officials, however, remained in order to guide and advise in the local administration. A Tripolitanian Government was established by the United Kingdom early in 1951 on somewhat similar lines to that existing in Cyrenaica, and a provisional Libyan Federal Government was formed in March, 1951. The United Kingdom of Libya formally came into existence on December 24, 1951 under the sovereignty of H.M. King Idris I. Nearly three years have passed since the emergence of Libya as a sovereign independent state, during which time there has been a greater measure of control being vested in the hands of the inhabitants. At the end of 1951 a temporary Financial Agreement was concluded with the United Kingdom regarding 100 per cent. cover in sterling for the initial issue of Libyan currency, and at the same time the United Kingdom undertook to make certain financial contributions in respect of budgetary deficits. The latter provisions were extended in 1953 when a Treaty of Friendship and Alliance was signed containing military and financial clauses. Provision was made for the yearly payment by the United Kingdom of £3¾ million for five years from April 1, 1953, with a review of the position to be made at the end of the period. These annual sums are used for development purposes such as the provision of public services and assistance to agriculture, as well as to provide contributions to a fund to be used in such contingencies as flood, famine or drought. Libya has also a Treaty of Friendship signed in September this year with the United States. Under this treaty the United States Government acquires the use of certain air bases and in return makes an annual payment of $2 million, together with certain other assistance in kind including arms for the Libyan army. In all, American financial assistance amounts to about $5 million a year at the present time. It will be seen, therefore, that this young kingdom leans quite heavily on external aid which, together with disbursements of the British and American troops, enables the country to embark on development and enjoy a higher standard of living. Nevertheless the country remains a poor one, but, now that it is unified, the way is paved for some small measure of economic advancement.

Libya occupies an area of over 1¾ million square kilometres (nearly 680,000 square miles), but of this large area the bulk is desert where the only signs of life and cultivation occur at oases. The population numbers about 1,112,000 (practically all Moslems), of whom over nine-tenths are to be found in the Tripolitanian coastal plain, the Jebel and the Cyrenaican plateau. These areas very roughly consist of two coastal strips,

with Tripoli and Benghazi as centres, separated by desert and semi-desert for many miles of the intervening coast. Agriculture forms the backbone of the economy and it is likely to remain predominant for a very long time. For neither the natural nor the economic conditions favour the growth of industry. There is a paucity of industrial raw materials, the population is sparse and possesses a low standard of living. Hence, a very small home market exists for industrial products. Accordingly, apart from public utilities and a few engineering, timber and building concerns in Tripolitania and Cyrenaica, industry in the western sense is virtually non-existent and its establishment cannot be envisaged at the present time. There are certain handicrafts practised and fishing is important, but agriculture forms the livelihood of at least four-fifths of the population.

Native agricultural production is primitive. The area devoted to static agriculture is relatively small and farming is mainly carried on under a shifting system of cultivation. Cereals constitute the most important crop. Owing to its hardiness, barley is best suited to the climate and it forms an important article of diet for the Arabs, as well as being a major item in the export trade. In good years production of barley may reach nearly 200,000 metric tons, but output may fall to 20,000 metric tons in bad years. Wheat is cultivated on a fair scale; the harvest may likewise, however, vary between 6,000 and 25,000 metric tons. These figures illustrate the fact that, owing to climatic reasons, severe fluctuations can occur from year to year in the volume of agricultural output, except in places where complete reliance is placed on irrigation. Olives normally rank after barley in value, almonds thrive, dates are grown in the oases, while the Italians during their occupation introduced citrus trees and grapes. Tobacco is grown in small quantities and groundnuts have been increasing in importance as a cash crop. Esparto grass, which grows wild and is used in the manufacture of high-grade paper, is also an important export. The chief single source of income, however, is derived from animal husbandry, which is, generally speaking, more adapted to the conditions obtaining in most parts of the country than agriculture. For large areas of steppe and semi-desert can provide forage but cannot be cultivated even under a shifting system of agriculture. Flocks of sheep and goats number about 800,000 and 700,000 respectively. Other animals maintained are camels, donkeys and cattle. A few horses, mules and pigs are also kept. Sheep are bred for wool, meat and milk. The flocks of goats also provide meat and milk, but their hair and skin also yield a source of cash income as well as being used by the people for clothing.

The position of Libya's economy may be described as rudimentary and under-developed. Nature, however, has not been bountiful to Libya and scope for development is limited. Production is primitive, and there is a low productivity per head of population. Even though Libya is essentially an agricultural country, it can hardly afford an adequate diet for its inhabitants even in years when the climatic conditions are fairly favourable. In bad seasons relief measures are necessary. Economic development must be concentrated on improvements in agriculture, for little can be done to establish industries, with emphasis on the expansion of cereal production. For the bulk of the population is illiterate and unskilled; the country possesses neither raw materials and minerals nor sources of power and energy.

The degree of poverty and the depressed standard of living act in a vicious circle. It can only be broken by outside financial and technical assistance. Although this is

forthcoming on a relatively generous scale, Libya's resources remain scanty. It is extremely difficult to obtain figures of national income, but one estimate in 1950 placed it at about £15 million. Although this figure is a very tentative one, it does give an indication that the national income of Libya is only about one-thousandth part of that of the United Kingdom. Income per head in the United Kingdom is possibly of the order of thirty times that of the average Libyan. This fact has repercussions on budgetary finance and overseas trade. Taxation receipts (mostly accruing from indirect imposts) are less than £6 per head. Little scope is thereby afforded for either the Provincial or Federal Governments to foster economic development out of their own resources. Low production is reflected in a relatively small turnover of overseas trade. Imports totalled £13·2 million in 1953 and exports amounted to £3·5 million. An unfavourable balance of trade is a normal feature and its persistence is only made possible by foreign assistance from the United Kingdom and the United States, supplemented by exchange being earned from the garrisoning of overseas troops.

The development of monetary and credit conditions in any country is mainly dependent upon the degree of advancement in all spheres of economic activity. From this short review of Libyan economy, it will be appreciated that the country is in a low stage of development. Accordingly, there is little scope for a comprehensive banking system. The country possesses virtually no capital and domestic savings are slender. There is at the present time neither a central bank nor any indigenous commercial banks. It is believed, however, that the possibility of establishing a National Bank and an Agricultural Bank is being examined. It may be said that the country is on a money or cash basis rather than on a credit basis demanding a highly developed and ramified banking system. The country possesses a sound currency based on sterling, which is now managed by the Libyan Currency Commission.

This Commission, which is of recent origin, conforms to the general principles relating to Currency Boards. With the integration of the country in the political sphere, it was considered desirable to have a uniform currency. During the Italian occupation metropolitan lire currency circulated in all three provinces. When the country was occupied by the Allies, however, the three provinces had separate currencies. In Cyrenaica, the British authorities introduced Egyptian currency, while in Tripolitania the British Military Authority Pound was first issued and notes based on this unit circulated with Italian lire currency. Later notes of a new currency, the British Military Authority Lira (M.A.L.), were issued and replaced the B.M.A. £'s and Italian lire (apart from small denominations of five lire and less) which were exchanged at 480 M.A.L. to the pound and Italian lire at par. In the Fezzan the French administration introduced the Algerian franc. One of the immediate tasks of the new Federal State of Libya was the unification of the currency, and to accomplish this the Libyan Currency Commission was established with effect from February, 1952. It is a body corporate consisting of a chairman and seven other members appointed by the Libyan Government, two Libyan nationals, two Bank of England nominees, one person nominated by the National Bank of Egypt, one by the Bank of France and one by the Bank of Italy. While the legal seat of the Commission is in Libya, it may hold meetings outside that country and does in fact sit also in London. It has a Currency Officer in Libya to supervise currency operations there, while Barclays Bank D.C.O. operates as its Currency Agents in Tripoli and Benghazi. The national currency based on the Libyan

pound, which is subdivided into 100 piastres and 1,000 milliemes, was introduced on March 24, 1952, and replaced the currencies previously circulating in the three territories. The exchange operation was formally completed by June 24, 1952 and the notes exchanged for the new currency were as follows :—

M.A.L. . . .	1,216,247,049
£E . . .	1,113,794
Alg. fcs. . .	141,377,493

These old notes were handed over to the Government of the United Kingdom, which secured reimbursement from the Governments of Egypt and of France for their respective issues. New notes and coin were exchanged for the old issues at the rates of exchange of one Libyan pound = 480 M.A.L., 97½ Egyptian piastres and 980 Algerian francs. Thus, old notes aggregating about £L3·8 million were exchanged, but not all this amount of new currency was issued, for certain holders of the old issues exercised the right of obtaining sterling rather than Libyan currency. The first official circulation statement showed that new currency issued, after these adjustments were made, amounted to £L3,520,915. The bulk of this issue was in the form of notes which consists of seven denominations, namely, £L10, £L5, £L1, £L½, £L¼, 10 piastres and 5 piastres. In addition, there is a relatively small issue of coins of 1 and 2 piastres and 1, 2 and 5 milliemes. Each currency note issued by the Commission is legal tender and the coins are legal tender up to a value of one pound.

The United Kingdom Government, in return for the redeemed currency of all the three earlier issues, transferred to the Commission an equivalent amount of sterling which provided 100 per cent. sterling cover for the new issue. Of the sterling counterpart to the currency issued, a proportion is retained in the form of cash and the remainder is invested mostly in British Government stock and, to a less degree, in British Government Treasury Bills, which are of three months' usance and hence can be allowed to run off and thereby replenish the Commission's cash reserves should there be a persistent demand for sterling in exchange for Libyan currency. The income accruing from the Commission's sterling investments defrays the cost of printing the notes, minting the coin, freight charges and other expenses. Under Article 6 (*h*) of the Libyan Currency Law " the Commission may decide to retain in cash, or invest in the securities of, or guaranteed by, other Governments, having previously secured the consent of the competent authorities of the Governments concerned. At no time may holdings of assets in currencies other than sterling exceed twenty-five per cent. of the total reserve." For all practical purposes, however, the Commission has hitherto maintained its reserve in sterling. The currency can be increased by the issue of notes and coin in Libya against prepayment in sterling in London, while its reduction is effected by making sterling available against the deposit of Libyan pounds. The Board is empowered to charge a commission not exceeding one per cent. on such transactions. The rate hitherto charged has remained at ¼ per cent. Changes in the volume of currency in circulation are dependent on the country's sterling position and ultimately on its balance of payments. The actual circulation has expanded from about £L3½ million at the time of the conversion operation to a current figure of some £L4,375,000. In spite of Libya's excess of imports over exports which would be deflationary in incidence causing a demand for sterling and other currencies and a decrease in local currency, the increase in circulation

is due to economic expansion arising from development which has been made possible by sterling and dollar grants.

The position of the currency system is, therefore, that it is on a sterling exchange standard. Just how long this system will obtain is a matter of conjecture, for now that Libya is a sovereign state it will no doubt aspire to having a national bank which will be responsible for the note issue and also exercise some control over the banking system. At the present time, however, the demand for banking facilities in Libya is small, provision for which is adequate. Outside Tripoli and Benghazi practically all business is transacted for cash. There are branches of certain overseas banks operating in the main towns as follows :—

Tripolitania	
Tripoli	Barclays D.C.O.
	British Bank of the Middle East
	American Express Company
	Banco di Napoli
	Banco di Roma
	Banco di Sicilia
	Credit Foncier d'Algerie et de Tunisie
Misurata	Barclays D.C.O.
Cyrenaica	
Benghazi	Barclays D.C.O.
	Arab Bank
Derna	Barclays D.C.O.
Fezzan	
Sebha	Credit Foncier d'Algerie et de Tunisie

The main function of the banks in Libya is to finance agriculture and foreign trade. Currency and credit is made available to exporters in advance of the receipts of foreign exchange, and importers are assisted to carry stocks pending their sale for local currency. In the main this business is for transactions that are self-liquidating within a short period of time. Unfortunately, there are no official banking statistics available for the whole of Libya at present. Figures are, however, available for Tripolitania. Deposits amounted to £L5·4 million at the end of June, 1954, and of this total £L4·8 million were sight deposits. The comparable figure for total deposits as at the corresponding date a year earlier was £L4·3 million. It is thought that bank deposits throughout Libya would be in the region of £L7 million only. The branches of these overseas banks maintain adequate cash reserves and make remittances to their respective Head Offices of cash deemed superfluous to their normal requirements. The cost of making these remittances must be weighed against the interest earned on such balances transferred. Cash and foreign balances maintained naturally vary somewhat but are well in excess of 50 per cent. of total deposits. In Tripolitania advances aggregated £L1·6 million at June 30, last, compared with £L1·4 million a year before. Bank deposits and advances are rising slightly, due to the economic development of the country. The control of credit is ultimately in the hands of the Head Offices of the operating banks, but it will be seen that bank advances in aggregate are not large. The possibility of changes in the price level being effected through the expansion or contraction of bank credit is strictly limited. Control by a central bank is not a pressing problem.

Some Legal Aspects of the Finance Act, 1954

Part II

By C. B. Drover

INCOME TAX AND PROFITS TAX (*continued*)

SECTION 19. This section implements another recommendation of the Report of the Millard Tucker *Committee on the Taxation of Trading Profits* (Cmd. 8189—para. 303), namely, that insurance companies and investment holding companies should be permitted to carry forward to subsequent years any amounts whereby their management expenses exceed their income in a year of assessment. The law on this point was contained in Section 425 of the Income Tax Act, 1952 and the section provided in effect that the companies concerned could claim repayment of tax on an amount equal to the sums paid out as management expenses. The present section now amends Section 425 so as to provide that as from the year of assessment 1954–55, excess management expenses may now be carried forward and set off against the income of the subsequent year or years.

SECTION 20. This section carries out a further recommendation of the Millard Tucker Committee (para. 83 (*b*)) and gives statutory force to what was previously an Inland Revenue concession whereby capital allowances could be set against general income, when claims in respect of losses were made under Section 341 of the Income Tax Act, 1952. The difficulty arose out of the fact that as the Committee pointed out " capital allowances are not expenses in arriving at profits but a deduction from profits when ascertained." Accordingly where a Section 341 claim (i.e., to adjust a liability to tax in any year of assessment by setting it off against an actual loss in that year) was made, it was not legally possible to use the capital allowances to increase or create a loss, though concessionally, the Inland Revenue used to allow this to be done.

SECTION 21. This section carries out yet one more recommendation of the Millard Tucker Committee (para. 278), namely, that if there is a loss on the demolition of an asset (i.e., if the demolition costs exceed the proceeds of sale of the scrap), the loss shall be brought into account in calculating any balancing allowance or charge in respect of that asset. The present section now provides that where a building or structure, or any plant or machinery, or any asset representing expenditure in connection with the working of a mine, oil-well, etc., or any asset representing scientific research expenditure, is demolished, the net cost of the demolition may be added to the balance, still unallowed as a tax deduction, of the expenditure incurred on or represented by the asset. The net cost means the cost of demolition less the scrap proceeds, and the effect of the addition will be to reduce a balancing charge or increase a balancing allowance, as the case might be. This new arrangement commences with the year of assessment 1954–55. In view of the new arrangement, it will no longer be possible to treat the net cost of demolition as part of the cost of a new asset replacing the one demolished, but where an obsolescence allowance is applicable under Section 296 (2) of the Income Tax

Act, 1952, in respect of machinery or plant provided before April 6, 1946, the cost of demolition will be treated both as an amount expended in replacing the machinery or plant, and as part of the cost of the machinery or plant replaced.

SECTION 22. This section gives effect to even a further recommendation of the Millard Tucker Committee (para. 267), namely that a cemetery should be entitled to deduct when computing its profits, the cost of any land comprising grave-spaces sold during the year. The effect of *Edinburgh Southern Cemetery Co.* v. *Kinmont* [(1889) 2 T.C. 516] is thus nullified. The section also makes provision for the deduction of what is called the " appropriate fraction " of the residue of capital expenditure on certain buildings and structures and on land taken up by them and on certain other land. The " appropriate fraction " is that represented by the number of grave-spaces in the cemetery sold in the period in question, divided by that number added to the number of grave-spaces which at the end of the period are or could be made available in the cemetery for sale.

SECTION 23. This section amends the Fourteenth Schedule to the Income Tax Act, 1952, which deals with the effect of sales, where either the buyer is a body of persons over whom the seller has control, or the seller is a body of persons over whom the buyer has control, or both the seller and the buyer are bodies of persons and some other person has control over both of them. The schedule also applies in the case of any sales where it appears that the sole or main benefit that might have expected to accrue was the obtaining of a capital allowance or deduction under Parts X or XI of the Act. Under para. 4 of the Schedule if a sale has been effected at a price other than the true market price, it is deemed for capital allowance purposes to have been effected at such market price, but the parties may make an election that instead of the true market price, the price shall be deemed to be the residue of unallowed capital expenditure incurred in providing the asset now sold. In that event, the buyer would have to bear any balancing charge subsequently assessed in respect of the asset. The present section now therefore provides that there is to be no right of election where the buyer is non-resident, since not being subject to U.K. income tax, it would not be possible to levy a balancing charge on him. The section further provides that the right of election shall also be available where a sale does take place at the true market price, thus nullifying the effect of *I.R. Comms.* v. *Wilson's (Dunblane) Ltd.* [(1954) 1 All E.R. 301].

SECTION 24. This section provides that certain consular officials and employees in the United Kingdom of any foreign state to which the section has been extended by Order in Council, shall be exempt from income tax under Cases IV or V of Schedule D provided the official or employee concerned :—

(*a*) is not a citizen of the United Kingdom and colonies ; and

(*b*) is not engaged in any trade, profession, etc., in the United Kingdom, save that of consular official or employee ; and

(*c*) either is a permanent employee of that state or was not ordinarily resident in the United Kingdom immediately before he became a consular officer or employee in the United Kingdom of that state.

Such officials and employees are, moreover, to be treated as not resident in the United Kingdom for the purposes of Sections 120 and 190 of the Income Tax Act, 1952 (which exempt certain dividends, etc., of non-residents from tax).

SECTION 25. This section exempts from tax the salaries of foreign employees of the International Wheat Council for so long as the seat of the Council remains in London.

SECTION 26. This section simplifies the procedure of Schedules A and B assessments.

SECTION 27. This section provides relief in respect of the first assessments for trades, professions or vocations carried on in the Isles of Scilly and not elsewhere in the United Kingdom. It will be recollected that it was by Section 29 of the Finance Act, 1953, that the inhabitants of the Scilly Isles were first made subject to income tax, and the section provided that assessments should be made as if the islands had been subject to tax in earlier years. The present section now provides, in effect, that if, in respect of the year 1954–5, it is proved that the actual profits of a trade, profession or vocation for that year are less than those by reference to which the tax falls to be charged in respect of it for that year, then relief may be claimed in respect of both income tax and surtax in respect of the difference between the actual profits or gains of that year and the profits or gains in respect of which the assessments were made.

ESTATE DUTY

SECTION 28. This section and the three succeeding sections are designed to mitigate the rigours of Section 55 of the Finance Act, 1940 in respect of deaths on or after July 30, 1954, while preserving the safeguards of that section. It will be recollected that Section 55 provides in principle that if a person dies holding a controlling interest in a company, his shares or debentures are to be valued on an " assets basis." That is to say the company's assets are to be valued, and the value of the shares or debentures is to be ascertained by reference to the actual value of the assets after deduction for liabilities, thus ascertaining the asset value of each share or debenture. It is at this value that the deceased's shareholding is to be calculated for the purpose of assessing liability to estate duty. Fundamentally this provision is designed to prevent people from evading estate duty by transferring all their assets to a company formed for the purpose, but the net was cast so widely that the section has caused a good deal of hardship in the past, and has often made it extremely difficult for family businesses to carry on. The present series of sections is meant to assist the family business, and the relief is provided, not by abolishing the principle of assets valuation, but by reducing the rate of duty by 45 per cent. on such of the assets as consist of industrial hereditaments or machinery or plant used in and occupied for the purposes of a business.

Section 28 (1) provides for this reduction of duty in the case of a business or interest in a business passing on a death. Sub-section (2) provides that where any shares in or debentures of a company fall to be valued on an assets basis, the duty is to be reduced by 45 per cent. on the " relevant proportion of the net value " of the shares or debentures. If the company is engaged in husbandry or forestry, a reduction of 45 per cent. is applied in respect of such proportion of the net value of the shares or debentures as is attributable to the " agricultural value " of agricultural property. The " relevant proportion of the net value " of the shares or debentures refers to such part of that value as is attributable to the value of any of the following :—

(*a*) industrial hereditaments, machinery and plant;
(*b*) shares in or debentures of a subsidiary company, in so far as their value is attributable
  (i) to the value of industrial hereditaments, machinery or plant; or
  (ii) to the value of any interest a subsidiary company has as lessor in property let to the company by the subsidiary and consisting of industrial hereditaments or machinery or plant;
(*c*) any interest the company has as lessor in any property let by the company to its subsidiary company and consisting of industrial hereditaments or machinery or plant.

Sub-section (5) applies (*b*) and (*c*) above where a company's business is treated as passing on a death by virtue of Section 46 of the Finance Act, 1940. It will be recollected that, broadly speaking, Section 46 provides that where the deceased has made a transfer of property to a company controlled or deemed to be controlled by not more than five persons, and any benefit has accrued from the company to the deceased within the five years prior to his death, a " proportion " of the company's assets is deemed to pass on his death. The " proportion " is ascertained by comparing the aggregate amount of the benefits accruing to the deceased within the last five accounting years, with the total net income of the company for the same period.

SECTION 29. This section amends Section 55 of the Finance Act, 1940, so as to restrict its provisions where the deceased did not have voting control of the company. In other words, the control which the deceased must have had at some time during the five years ending with his death, must be " the control of powers of voting on all questions or on any particular question, affecting the company as a whole which if exercised would have yielded a majority of the votes capable of being exercised thereon; or if he could have obtained such control by an exercise at that time of a power exercisable by him or with his consent." (Sect. 55 (3) F.A. 1940). The present Section 29 makes further provision in the case of a company where either :—

(*a*) " immediately after the deceased's death, a person having control or ' powers equivalent to control ' of the company, either alone or in conjunction with his relatives, has a beneficial interest in the shares or debentures concerned; or
(*b*) " immediately before and after the death the shares or debentures are held by the trustees of some trust who then have control of the company by virtue of shares in or debentures of the company held by them as such trustees."

If, however, the shares or debentures concerned fall to be valued on the death by virtue of a gift *inter vivos* made by the deceased, or by virtue of a disposition or determination of an interest limited to cease on the death, the above conditions do not apply. The condition then is " that immediately after the death, or at any previous time since the gift or since the disposition or determination, as the case may be, the donee or person becoming entitled by virtue of or upon the disposition or determination has or had control or powers equivalent to control of the company, either alone or in conjunction with his relatives."

In Section 31 of the Finance Act, 1954, a person is deemed to have *powers equivalent to control* " if he either has the capacity, or could by an exercise

of a power exercisable by him or with his consent obtain the capacity, to exercise or to control the exercise of any of the following powers, that is to say, the powers of a board of directors or of a governing director of the company, power to nominate a majority of directors or a governing director thereof, power to veto the appointment of a director thereof, and powers of a like nature."

Where one of the above three conditions is satisfied, Section 55 will apply in the following cases :—

(*a*) If during a continuous period of two years falling wholly within the five years ending with his death, the deceased had powers equivalent to control of the company.

(*b*) If during such period, more than one-half of the dividends declared by the company and the interest accruing due on debentures of the company is to be treated as a benefit of the deceased under Sections 47 and 48 of the Finance Act, 1940, or would be so treated if the deceased had made a transfer of property to the company.

(*c*) If at any time during the five years ending with the death of the deceased (not being a time when some other person had control or powers equivalent to control of the company), the deceased had a beneficial interest in possession in shares in and/or debentures of the company, totalling one-half or more of the shares and debentures then outstanding.

SECTION 30. This section provides that where any shares or debentures falling to be valued within Section 55 of the Finance Act, 1940, are sold within three years after the death, the sale price shall be the value for the purposes of estate duty if :—

(*a*) no person concerned either as vendor or as having any interest in the proceeds of sale was a relative of any person concerned either as purchaser or as having an interest in the purchase ; and

(*b*) the sale was made at arm's length for a price freely negotiated at the time of the sale ; and

(*c*) the price obtained was less that the Section 55 valuation.

This section also provides that a Section 55 valuation is not to be made of shares or debentures given as absolute out-and-out gifts by the deceased to an employee or ex-employee of the company, or to a widow or orphan of an employee or ex-employee. This does not apply where the donee is a relative of the deceased. The donee must, moreover, not have control or powers equivalent to control of the company, either alone or in conjunction with his relatives immediately after the death, or at any previous time since the making of the gift.

SECTION 31. This section defines certain of the words and expressions used in Sections 28 to 30 and also includes certain supplementary provisions.

SECTION 32. This section alters the rates of estate duty so as to exempt from duty all estates not exceeding £3,000 and to charge duty at one per cent. on estates exceeding £3,000 but not exceeding £4,000.

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SECTION 33. This section makes changes in the law relating to aggregation. It will be recollected that for the purpose of determining the rate of estate duty all property passing on a death in respect of which estate duty is leviable is aggregated. There are exceptions to this rule. For example, property in which the deceased never had an interest and certain small estates are not subject to aggregation. Thus, in the case of deaths before July 30, 1954, where the value of property on which estate duty would be payable, exclusive of property settled other than by the will of the deceased, does not exceed £2,000, it forms an estate by itself. Accordingly it is not aggregated with settled property passing on the death of the deceased. The relative smallness of this figure was apt to give rise to hardship. For example, as Mr. Boyd Carpenter pointed out in the debate in the Committee Stage (*Hansard*, Vol. 529, No. 136, Col. 956) " hardship can arise when a large settled estate passes, in accordance with the settlement, possibly to persons other than the deceased tenant-for-life's near relatives, but requires to be aggregated with his quite small free estate As a result it may be that his close relatives to whom the free estate comes obtain a small free estate minus the very high rate of duty which results from aggregating it with the settled estate. The extreme example could be of a free estate, under existing law, of £2,001, a very large settled estate passing in another direction and the unfortunate beneficiaries of the free estate finding their £2,000 subjected to duty at 80 per cent. and, therefore, receiving £400."

The present section now increases the amount of the free estate from £2,000 to £10,000, and includes in the settled property any such property " other than property comprised in a settlement made by the deceased or made, directly or indirectly at his expense or out of funds provided by him, and other than property not so comprised of which he has been competent to dispose and has disposed by the exercise by his will or otherwise of a power conferred by the settlement, or which devolves on his personal representatives as assets for payment of his debts."

The section also provides marginal relief if the free estate exceeds £10,000.

Sub-section (2) alters the rule that each insurance policy taken out under the Married Women's Property Act, 1882, was to be treated as an estate by itself and not aggregated with other property of the deceased. This concession has led to abuse, for it was possible for a person to take out several of these policies for amounts of £2,000 or less, with the result that no estate duty at all would be payable in respect of them. The new rule is that, in the case of deaths after July 30, 1954, all such policies in which immediately after the death any one person is absolutely and indefeasibly entitled for his own benefit (otherwise than by virtue of a purchase for consideration in money or money's worth) are aggregated together and treated as an estate by themselves. Subject to this all such policies taken out by the deceased are to be aggregated together. Policies in respect of which no estate duty is payable are left out of account.

That completes the review of so much of the Act as it is intended to cover in this article, and it remains to emphasise that this article can only summarise briefly the effect of certain sections of the Act, and reference must be made to the Act for the detail of its provisions.

Recent Legal Decisions of Interest to Bankers

By C. B. Drover

CONTRACT—MEANING OF WORD "GUARANTEE"

HEISLER *v.* ANGLO-DAL LTD (1954 : 2 All E.R. 770.)

By a contract dated October 7, 1952, the Plaintiff agreed to sell to the Defendants 300 metric tons of aluminium ingots, which were then in Norway. The price was U.S.$718 per metric ton, f.o.b. Antwerp, and delivery was to take place in Antwerp "within thirty days from your establishing the confirmed, irrevocable, transferable and divisible letter of credit." The contract went on to state:

> "We (i.e., the sellers) undertake to furnish you with a 10 per cent. guarantee that we will deliver the goods to your forwarding agents in Antwerp as soon as we receive confirmation from your bankers that the necessary letter of credit, valid not less than six weeks, will be established in our favour in free transferable U.S. dollars."

On October 20, 1952, the Midland Bank wrote to the Defendants, confirming that they had been instructed to open the credit "but that the opening of the credit was conditional on their receiving from the plaintiff within fourteen days dollars representing ten per cent. goods value as full delivery guarantee."

The Plaintiff then sent the Defendants an undertaking worded as follows:

> "We herewith guarantee to deliver three hundred metric tons of aluminium ingots of 99·5 per cent. aluminium to your forwarding agents in Antwerp and undertake to pay to you the amount of $21,540 which is ten per cent. of the amount of the goods we have sold to you if we default to deliver the three hundred tons."

The Defendants refused to accept this undertaking and demanded an agreed bank guarantee within the next four days. The Plaintiff did not comply and on November 18, 1952, the Defendants informed the Plaintiff that the deal was off.

The Plaintiff then commenced this action for damages for breach of contract, contending that the undertaking which he had furnished was a "guarantee" within the true construction of the expression used its context in the contract. The Defendants on the other hand contended that the undertaking provided did not comply with the terms of the contract since the guarantee called for was a bank guarantee, alternatively that it was a guarantee given by some third party who was not necessarily a banker. In the alternative, the Defendants contended that the stipulation calling for a guarantee was unenforceable for uncertainty, since the name of the third party who was to give the guarantee was not stated. The evidence showed that the Defendants were never in a position to confirm that the credit would be established, but they claimed that the Plaintiff's refusal to supply a guarantee within the Defendants' meaning of the term was an anticipatory breach of the contract, which entitled the Defendants to treat the contract as at an end.

It was HELD by the Court of Appeal (Somervell, Birkett and Romer, L. JJ.) affirming the judgment of Devlin J., that the expression "guarantee" did not necessarily mean a guarantee given by a third party, and that upon the true construction of the present contract the Plaintiff had fulfilled the particular obligation by tendering an undertaking in the terms given above. Judgment was accordingly given for the Plaintiff.

The word " guarantee " is one which is frequently used in a imprecise sense. The strict legal meaning of the word normally implies a promise by a third party that an obligor will perform his obligation. For example, A lends money to B in consideration of a promise on the part of C that C will repay A if B does not. That is a guarantee by C in the strict legal meaning of the word. A true guarantee provides, of course, an additional security for the repayment of the debt, for the lender has a right of action against the guarantor as well as against the principal lebtor, and it is no doubt this sense of additional security which the word implies which causes business men, and others, to use the word either to imply a warranty or to add more solemnity to their mere promise. For example, " Guaranteed not to shrink " might be part of the description of a pull-over, and in that sort of connection the so-called guarantee is nothing more than a mere warranty. Equally one sometimes sees in a contract for the sale of goods containing a date for shipment, the words : " shipment guaranteed." The words would appear to be quite meaningless, for if anyone has contracted to sell goods, he is bound to deliver them, and the addition of his guarantee to deliver adds nothing to his legal obligations. Yet business men attach importance to the words and feel that their inclusion gives some added solemnity to the contract, giving the buyer a greater degree of certainty that the goods will be delivered.

Presumably it was with some such motive that the words were used in the present case. The seller contended that by giving his personal undertaking he had fulfilled the guarantee requirement in the contract. The buyers on the other hand contended that they were entitled to a proper guarantee, that is to say, a guarantee given by a third party to pay the buyers ten per cent. of the sale price of the goods if the seller did not deliver the goods as provided in the contract. The buyers' strongest argument in support of this contention was that unless the word " guarantee " were construed in its strict legal sense, the inclusion of the provision would add nothing to the contract. The Court of Appeal would not accept this argument, and adopted the following passage from the judgment of Devlin J. in the Court below (2 All E.R. at p. 772) :

> " Again I think one has to bear in mind that commercial men do not look at these things quite from the lawyer's point of view. To a lawyer to say : ' I guarantee that I will perform my contract ' is quite worthless, but a commercial man would regard the guarantee, perhaps furnished in a proper form of letter, as having some value as underlining, as it were, the promise that had been undertaken. He does not think in terms of damages, liquidated damages, penalty clauses and the rest of it ; he says to himself : ' I have got it in writing and if for any reason these goods do not come forward I will get ten per cent. of their price,' and he may well think that is a valuable thing."

An argument to be considered in relation to this contention of the Defendants was that if the guarantee were to be a third-party guarantee, the question would arise as to who ought to be the guarantor. Possibly it ought to be a bank, or possibly it ought to be some person other than a bank who was of acceptable standing to the Defendants. The Court was unanimous in thinking that if the expression " guarantee " were to be construed as meaning a third-party guarantee, the resultant uncertainty would be so great as to vitiate the whole contract. This would certainly have suited the Defendants, who were contending that they were in any event excused from performing the contract, but it was a factor to be considered in construing the contract. There is a rule of construction that " if two interpretations of an expression in a document are both reasonably acceptable but one gives rise to uncertainty in its effect and the other does not, the

courts will adopt the latter in preference to the former." Thus, in the present case, said Romer L.J. (2 All E.R. at p. 775) " the interpretation of guarantee as meaning the guarantee of the Plaintiff is reasonably acceptable and leads to no uncertainty in its result; but assuming that it is construed as meaning the guarantee of some third party then, even on the assumption that such construction is also reasonably acceptable, its adoption would involve so great a degree of uncertainty (that is, as to the identity of the guarantor) as might bring about the complete annihilation of the contract."

The Defendants further contended that the Plaintiffs' so-called guarantee was worthless, because the Plaintiff could not pay dollars without consent of the Treasury, and such consent had not been obtained. There were, however, two answers to this contention. Firstly, the Defendants had not taken this point at the time, and they were therefore precluded from taking it now. The general rule of law is that " a contracting party who, after he has become entitled to refuse performance of his contractual obligations, gives a wrong reason for his refusal, does not thereby deprive himself of a justification which in fact existed, whether he was aware of it or not." (See *Taylor* v. *Oakes, Roncoroni & Co.* [(1922) 127 L.T. 267]). There is, however, an exception to this rule, and that is if the shortcoming later complained of could have been put right at the time when it first came to notice the party concerned is precluded from raising it later, if he did not raise it at the time. Thus, if, in the present case, the Defendants had complained at the time of the lack of Treasury consent, the Plaintiff would have had the opportunity of obtaining consent and so rectifying the defect.

This contention of the Defendants also raised a further point of some interest. In answer to it, the Plaintiff further submitted that the lack of Treasury consent did not vitiate the undertaking, since " a contract to pay a sum in foreign currency in England could on its true construction be fulfilled by the payment of the equivalent in sterling." This is a very old established rule going back to 1586 (*Willshalge & Davidge's Case*), and, assuming that it is still good law, it would have been of assistance to the Plaintiff if his first submission on this point had not found favour with the Court. As it was, Somervell L.J. did not express an opinion on the point, but he did suggest that the rule might well require reconsideration in the light of present exchange restrictions. He said (2 All E.R. at p. 773):

> " The principle, which I think is primarily a rule of construction, was understandable at a time when foreign exchange was normally freely obtainable. It may well be related to the well-known fact that if a sum in foreign currency is not paid a writ can only claim the equivalent in sterling. It may well require, as I think, reconsideration as a *prima facie* rule if and so long as the foreign currency in question is not freely obtainable. It may well defeat the intention of a purchase to construe contracts in those circumstances as giving the payer an option to pay in sterling."

The sort of case that arises now is this. The X Bank in London has an office in New York. A & Co. Ltd. has an American subsidiary, B. Inc. At the request of A & Co. Ltd., the X Bank, New York, makes dollar advances to B Inc. and as security A & Co. Ltd. gives a guarantee to the X Bank in which it guarantees to repay the advances in dollars. B Inc. fails to pay. A & Co. Ltd. can discharge its liabilities by payment in sterling. This may not have mattered in the days before exchange restrictions were imposed, but in present conditions it may have very unfortunate results for the creditor.

November, 1954

INCOME TAX—BANK INTEREST AND EARNED INCOME RELIEF

LEWIN *v.* ALLER (1954: 2 All E.R. 703; 1 W.L.R. 1063; 98 Sol. J. 524)

The taxpayer, a chartered accountant, had earned income of £1,516 in the year in question, and unearned income of £48. In the same year he paid £85 for mortgage interest, £56 for building society interest and £29 in respect of bank interest on his overdraft.

For the purposes of calculating his earned incom relief, his earned income was assessed at £1,398 (i.e., £1,516 plus £48 less £170). The taxpayer contended, however, that it should have been assessed at £1,516, i.e., his actual earned income before deduction in respect of the charges allowable against his income.

It was HELD by the Court of Appeal (Sir Raymond Evershed, M.R., Jenkins and Hodson L.JJ.) affirming the decision of Wynn-Parry J., that the charges allowable against income must be deducted in computing the income in respect of which earned income relief was allowable.

The decision in this case affirms what was always thought to be the law on this point and upholds the decision of Rowlatt J. in *Adams* v. *Musker* [(1930) 15 T.C. 413].

In principle there are certain charges against income in respect of which a taxpayer is entitled to charge the tax against the payer, or is entitled to deduct income tax when making the payments in question. Mortgage interest (including building society payments) and bank interest are included in these charges, though as it happens, each is treated differently for income tax purposes. A mortgagor is entitled to deduct income tax when making payments of ordinary mortgage interest. In the case of building society payments, a different procedure is necessary because the payments consist of varying amounts of capital and interest. Accordingly a building society notifies the mortgagor's tax inspector each year of the amount of interest which the mortgagor has paid in that year, and credit for tax on the interest is allowed in assessing his tax liability. Bank interest is debited to the customer's account without deduction for income tax, and at the end of each year the customer can claim repayment of tax at the standard rate on the interest paid by him. The interest must actually be paid by the customer if he is to claim repayment of the tax. The mere debiting of the interest to the customer's account is insufficient by itself. There must also be subsequent payments in to the credit of the account which are equal to or in excess of the amount of interest debited.

The guiding principle is, of course, that the same income shall not bear tax twice, and bank interest, for example, is regarded as income of the bank, and the money out of which it is paid is not regarded as income of the customer. Accordingly, if the customer's income is treated in effect for tax purposes as reduced by the amount of bank interest paid, it would clearly be inequitable that the customer should be able to claim earned income relief in respect of that piece of income.

So far as the Income Tax Act, 1952 is concerned, the point is quite clear, since Section 221 reads as follows:

> "A claimant shall not be entitled to relief under the preceding provisions of this Part of the Act in respect of any income the tax on which he is entitled to charge against any other person, or to deduct, retain or satisfy out of any payment which he is liable to make to any other person,"

and Section 211 which makes provision for earned income relief is in the same Part of the Act. But so far as the pre-1952 legislation was concerned (and it was by reference

to such legislation that the case under review was decided) there was some slight doubt about the matter, which arose in this way. Earned income relief was given under the Income Tax Act, 1918, not as a deduction from earned income, but by applying a lower rate of income tax to such income. It was the Finance Act, 1925, which effected the change to the present method, and this Act left unrepealed Section 17 of the 1918 Act, which was in similar terms to Section 211, quoted above.

The question raised by the case now under review was whether or not Section 17 applied to the changed provisions which were contained in Section 15 of the Finance Act, 1925. The case of *Adams* v. *Musker* (*supra*) decided that Section 17 did apply, and in the present case the Court of Appeal has affirmed that decision.

Book Reviews

Papers in English Monetary History. Edited by T. S. ASHTON and R. S. SAYERS. (London: Oxford University Press, 1953. Pp. 167. 18s.)

THIS volume consists of contributions which a number of writers have made during the last eighteen years to English monetary history. The editors make clear however that it is not a symposium but an attempt to make available a collection of articles and papers which, for various reasons, have become unobtainable.

The four articles by Mr. J. K. Horsefield (all previously published in *Economica*) are classics. They are outstanding examples of the fruitful combination of historical and theoretical techniques applied to a fascinating group of problems relating to banking policy in the period 1776 to 1844; a period which, by reason of the events themselves, and the discussion and investigation which the events provoked, may be regarded as the happy hunting ground for writers on monetary history.

The paper by Professor T. S. Ashton on the bill of exchange and that by Professor F. W. Fetter on the Bullion Report (both reprinted from the journals) have been recognised for some time as contributing vital elements to the history of the same period. The previously unpublished paper by Professor R. S. Sayers on Ricardo's views, which draws on the Sraffa edition of Ricardo's works, provides a valuable review of Ricardo's attitude to the major issues of his day and is particularly valuable in placing Ricardo's monetary views into relationship with his " naive view of economic structure " which permitted him to assume instantaneous adjustments in the balance of payments in response to price changes.

Chapter 7 reproduces a number of letters written by Miss Marianne Thornton (daughter of the Henry Thornton whose name is well known as a banker, member of the Bullion Committee and writer on monetary problems) describing in great detail the efforts of her brother to avoid the failure of Pole, Thornton & Co. in the 1825 crisis. The vivid detail with which the events are described is in itself an interesting comment on the attitudes and understanding of a young woman of the early nineteenth century, but the events themselves—including as they do the assistance of the Bank of England—are of the greatest interest. These letters are gems which have only recently been discovered; the editors are to be congratulated upon their present setting.

The retrospective view of the Bank Charter Act by the late Professor P. Barrett Whale, which constitutes Chapter 9, is little more than a note and seems somewhat out of place in the volume. It is true that it bridges the chronological gap between

1844 and the events which are the subjects of the final chapters, namely the gold techniques of the Bank of England, 1890–1914 (by Professor Sayers) and the pre-1914 gold standard (by Professor Barrett Whale). In view of the fact that the editors did not intend a symposium, and since the chronological coverage is very uneven, no such bridge would appear to be necessary, but the inclusion of the Chapter in this particular position presents a remarkable juxtaposition of views which might have provoked the editors to go beyond their task of selection in order to attempt a reconciliation. The final paragraph in Chapter 8 (J. K. Horsefield) contains the following:

> " Such, then, were the diverse elements from which the Act of 1844 was constructed —the Act which Professor Gregory has rightly described as ' an attempted solution of certain definite difficulties, and not a mere application of an *a priori* theory '."

The first paragraph of Chapter 9 (P. Barrett Whale) runs:

> " Peel's Bank Act has always seemed to me exceptional in English legislation because it did not represent an attempt to deal piecemeal with the immediate practical problems, giving support in this direction, imposing restrictions in that, but gave effect to a clear cut theory—the theory that banking ought to be separated from the control of the currency."

Leeds University. W. T. NEWLYN.

How the City Works. By OSCAR HOBSON. (London: News Chronicle Book Department, 1954. Pp. 160. 6*s*.)

SIXTEEN years have elapsed since Oscar Hobson wrote the first issue of this book. In the meantime a great war made much of that edition invalid, at least for a time. Now so many of the old institutions are nearly back to normal, it is fitting that an edition should appear just now to cover the re-opened commodity markets, even if money itself, that most important of all commodities in the City, is still under " open arrest ". To those who would compare the 1938 and the 1954 editions, there must come the suspicion that we have nothing to gain from the chains that still bind us.

However, the primary purpose of this book is not to reflect sadly on what might have been, or might yet be. It is to instruct. Every year there are thousands of new seekers after just the knowledge that Oscar Hobson essays so successfully to impart in these pages. He covers a wide field. Many of our readers could, perhaps, concur patronisingly with the author over his chapters on " How cheques are paid " or " Exchange Control ", but might reflect that other chapters concerned with Tea, Rubber, Wool, Lloyd's and The Baltic are not familiar ground. Since the book is an excellent guide to one's younger kinsmen about to set forth on a City career, this present reviewer will recommend it for this purpose. But this recommendation extends to the wider circle of those already in one part of the City who should know how the rest of it works. Six shillings is little enough to pay for this knowledge.

Building Societies Year Book 1954 (Francy & Co. Ltd. 641 pp.)

THIS is the year's edition of the Official Handbook of the Building Societies' Association. It covers 782 Societies with combined assets of £1,641 millions—an increase for the year 1953 of £164 millions. Nearly £300 millions was lent on mortgage during 1953, and the steady expansion of lending, particularly under the new guarantee arrangements, suggests that the current year will see an even greater advance.

EDUCATIONAL SECTION

Notes and Comments

MONTHLY PROBLEM

THIS month we publish a problem received from a Barclays Bank reader in Manchester to whom our usual prize of one guinea has been sent. A further prize of one guinea will be awarded to the reader who submits the most satisfactory solution to reach the Editor, *The Bankers' Magazine*, 85 & 86, London Wall, E.C.2, not later than November 16, 1954.

" Southtown Bank grants advances to X and Y on joint account secured by a life policy for £500 on the life of X and in his favour, and a life policy for £500 on the life of, and in favour of, Y. Each policy has been charged to the bank by the respective owner by separate legal mortgage. In addition, both X and Y have contracted to be jointly and severally responsible for their indebtedness on joint account.

X dies when the joint account is overdrawn £400, whereupon Y immediately pays off the indebtedness to the bank and obtains the release of the life policy which is in his favour. The executors of X request the delivery to them of the policy on the life of and in favour of the deceased, but Y claims that he is entitled to collect this policy and instructs the bank not to release it to the executors. What is the legal position and what attitude would you advise Southtown Bank to adopt ? "

OCTOBER PROBLEM

FEW readers attempted to solve this problem based on the mispost of a ledger entry, which often arises in practice causing embarrassment, if not loss, to the paying banker. The most reasoned solution came from a Lloyds Bank reader in Burgess Hill, Sussex, and our prize of one guinea has been duly awarded to him.

The problem read as follows :—

" Upon his discharge from army service in 1952, Major X opened a current account at Southtown Bank with an initial deposit of £2,000. A statement of account recording the number and amount of all cheques debited to the account was furnished by Southtown Bank to Major X regularly every month. In 1954 this customer obtained employment in Yorkshire and transferred the balance of his account to Northtown Bank, from which he borrowed up to £2,000 on overdraft, to assist in his purchase of a residence for £4,000. The deeds of this house were charged to Northtown Bank by way of legal mortgage as security for the agreed accommodation. For the time being, therefore, Major X had heavy financial commitments in relation to his salary of £1,000 per year.

Two months after the removal of his account to Northtown Bank, Major X receives a letter from Southtown Bank explaining that a cheque for £45 drawn by him in 1953

had been debited to the account of another customer with a similar name. As the error has just been discovered, Southtown Bank ask Major X to remit £45 to them to correct the position.

What is the legal position of Southtown Bank? Major X is naturally embarrassed by this request for £45 and seeks the advice of the Manager of Northtown Bank. How would you deal with his enquiry?"

From the legal standpoint it appears that, unless Southtown Bank can prove that Major X had acted in bad faith, it cannot recover the amount of the cheque from him, There is no obligation upon a customer to check the entries in the bank statement and when Major X transferred the balance of the account to Northtown Bank he was entitled to assume that all his cheques had been paid to date. No doubt he returned any unused cheques to Southtown Bank and left them with the impression that the final balance was correct. Entries in a statement are *prima facie* evidence against the bank and, if Major X acting in good faith relied upon the entries, then Southtown Bank is estopped from denying the accuracy of the balance it transferred. As he has altered his position relying on those entries, the loss would have to be borne by his former bankers. In defence of any action which might be brought against him, this customer could probably successfully plead that the statements issued to him were accepted as unquestionable evidence of the balance in his account, and relying upon the figures he transferred the balance to Northtown Bank. Furthermore, he might contend that he had altered his position relying upon the entries, acting throughout in the belief that the balance was precisely as shown on the bank statement. He was not an experienced business man and acted on the balance without verifying the entries. (Compare: *Skyring* v. *Greenwood* [(1825) 4 B. & C. 281.] *Holt* v. *Markham* [(1923) 1 K.B. 504], *Holland* v. *Manchester & Liverpool District Banking Co.* [(1909) 25 T.L.R. 386] and *Lloyds Bank Ltd.* v. *The Hon. Cecily K. Brooks* (*Journal of the Institute of Bankers*, April, 1951). In this last case Mr. Justice Lynsky stated, "it seems to me in this case there was a duty on the bank to keep the defendant correctly informed as to the position of her account, and there was a duty on the bank not to over-credit her statement of account, and there was a duty on the bank also, for that matter, not to authorise her or induce her by faithful representations contained in her statement of account to draw money from her account to which she was not entitled." In effect, Major X drew cash to the extent of £45 from Southtown Bank to which he was not entitled, but in doing so he relied on the balance advised to him by the bank.

The Manager of Northtown Bank, however, would be ill advised to pursue the legal argument against a fellow banker. Instead, after sympathising with Major X in the embarrassment caused by the mistake, he should point out that X had issued the cheque and the proceeds had been received by the payee. Morally, therefore, X should naturally meet the request of Southtown Bank, who should hardly be allowed to suffer for its unfortunate error. Opportunity should be taken to impress upon its customer the practical need always to check the entries in the statement and to note any cheques issued but remaining unpaid. A tactful explanation should soon convince Major X that he ought to remit £45 to Southtown Bank and, if need be, perhaps Northtown Bank would be happy to increase his overdraft facility temporarily by that amount to settle the matter.

COURSE ON BANK ADVANCES

A SPECIAL evening course of six lectures, each followed by a discussion, on *The Principles and Practice of Bank Advances* will be given by T. C. Candy, A.I.B., on Thursdays, 6.0–7.30 p.m. January 13 to February 17, 1955.

Content of course: (1) Basic principles governing the granting and supervision of loans, overdrafts and discounts: (2) Unsecured advances—type of borrower and assessment of risk: (3) Lending against balance sheets: (4) Lending against land (i) in general (ii) unregistered: (5) Lending against registered land: (6) Lending against produce and goods.

These lectures will be of an advanced practical nature and are intended specially for executive members of branch banks. Course fee £1.

Enrolment forms and a detailed syllabus of the lectures may be obtained from the Head of the School of Commerce, Little Titchfield Street, London, W.1.

The Seventh International Banking Summer School

THIS year's Summer School took place in Granada and Madrid during the fortnight from September 12 to September 26, and was an undoubted success.

A prominent theme was the return to normal of the banking business after the readjustments consequent upon the war. The list of lectures given is as follows:—

LECTURER	COUNTRY	SUBJECT
Professor Sir Dennis Robertson .	United Kingdom	Convertibility.
Professor Otto Veit . . .	Germany	The Relations between economic Policies and the Balance of Payments.
Monsieur Jacques Oudiette . .	France	The new Processes for the Finance of foreign Investments and the Problem of Co-operation between the private Banks and the International Organisms.
Professor Don Luis Olariaga .	Spain	Voluntary Saving and the Banks.
Don Luis Sáez de Ibarra . .	Spain	Regulations of Spanish Banking.
Mr. Edward L. Williams . .	United States	International Economic Co-operation.
Mr. Wilfred King . . .	United Kingdom	Monetary Orthodoxy and Britain's Recovery.
Don Epifanio Ridruejo. . .	Spain	The Spanish Banking System.
Don Andrés Moreno . . .	Spain	The Spanish Capital Market.
Professor Henri Germain-Martin	France	The Influence of Government Investments on Bank Liquidity in France.

Sir Dennis Robertson held that the return to convertibility should be effected with great prudence, on the basis of fixed and not fluctuating exchange rates and asserted that the United Kingdom by itself will not be able to re-establish convertibility unless it is accompanied in this move by some currencies belonging to the European Payments Union. Professor Robertson believed that unless a change is brought about in the protectionist policy pursued by the United States an adequate functioning of convertibility will not be possible, quoting as a warning example the recent increase in custom duties on Swiss watches in the United States.

Professor Veit started his lecture by comparing the liquidity of the banks and the general economic liquidity, and favoured a liberal and multilateral economic policy. He analysed at some length the problem of fixed or flexible exchange rates and supported the former.

M. Jacques Oudiette gave a historical account of the movements of foreign capital and ended by examining the credits for the export of capital goods at present granted by some countries, principally by France and Germany. He suggested that these credits should be supported by international organisms, especially by the International Bank for Reconstruction and Development.

Don Luis Olariaga, Professor at the Madrid University and Director of the Consejo Superior Bancario, explained how social policies have gradually reduced the formation of voluntary savings, replacing them by forced savings, the so-called " cheap money - full employment policy " also having a similar effect. This evolution may be particularly observed in the countries which were belligerents during the war, owing to the ideological climate created by the war, and tends to favour the State's intervention. Thus we encounter, by two different ways, a tendency which is characterised by the progressive replacement of voluntary savings by forced savings. To the same extent that voluntary savings decline the banks are weakened as the very basis of their business disappears. If the total volume of savings does not diminish but a part of it is obtained by compulsive processes, the effect on the banks is similar, for it will be other kinds of institutions which will have to channel the coercive savings. On examining what the situation would be in that case he expressed the opinion that Government institutions have to take considerations into account other than those of a purely economic nature ; that a good Government may be followed by a bad one, thus undermining confidence in the State itself and in its banking activities. Luckily these evolutions have not been registered in the Western countries to any marked degree, thanks in part to American capital which has co-operated in the finance of the reconstruction carried out after the war.

Don Luis Sáez de Ibarra, Sub-governor of the Bank of Spain analysed in another lecture the Spanish Banking Regulations, giving special attention to the Bank of Spain, the official banks, the Spanish Institute for Foreign Exchange, the Welfare Savings Banks and the National Service for Agricultural Credits.

Mr. Williams, Director of the American Economic Mission in Spain, was another lecturer and spoke on the subject of International Economic Co-operation. After a philosophic analysis of the principles which should guide this co-operation, Mr. Williams

underlined the " courtesy, collaboration and understanding of the representatives of the Spanish Government with whom he had had to deal ".

Mr. Wilfred King, dilated the question as to whether the money market in England was returning to its normal channels. He pointed out the importance acquired by the re-establishment of the free play of interest rates and by the norms for qualitative credits applied in recent years such as, for instance, the interruption of the loans for financing investments. Mr. King gave priority in the new orthodoxy to the forced consolidation of Treasury Bonds in the banks' portfolio which reduced the liquidity of the English credit establishments to a point very close to the conventionally accepted minimum.

Don Epifanio Ridruejo, Managing Director of the Banco Español de Crédito, spoke on the subject of the Spanish banking system. He examined its historical evolution, giving special attention to the unblocking of funds and to the 1946 Banking Act. The structure of Spain's banking system gave rise to a study of the significance of the principal items of the balance sheets, underlining the increase of reserves compared to the capital and that of the longer term deposits compared to the demand deposits. Sr. Ridruejo also pointed out the small importance attaching to the real estate property, furnishings and installations in the banks' total assets (1.50 per cent.), this ratio declining further in the last years. The significance of public securities in the total assets and that of industrial shares is also diminishing in the Spanish banks, in favour of the Bills portfolio. The operating accounts, the profits, the concentration and expansion of the banks, and the co-ordination with other organisms were also examined in great detail by Sr. Ridruejo.

Don Andrés Moreno, Managing Director of the Banco Hispano Americano, spoke on September 23 on the subject " The Spanish Capital Market ". Essential points in this most interesting contribution were that agriculture in general finances itself out of its own profits, relying as well on the aid of the Banco Hipotecario (Mortgage Bank) and the National Service for Agricultural Credits. Industry absorbs about 40 per cent. of the total issues and the Spanish banks play an important rôle in channelling available funds to it, by means of their prefinancing loans. Sr. Moreno then analysed the history of foreign investments in Spain and expressed his hope that foreign capital will play its part in the support and development of the Spanish economy, as has happened in the course of the last hundred years.

Professor Henri Germain-Martin expounded in the last lecture of this series the influence of Government investments on the liquidity of the banks in France, giving special attention to the study of medium-term bank loans.

The Seventh International Banking Summer School has been a great success for Spain. Close on two hundred delegates from important banks established in thirty-five different countries have taken part in its sessions, besides over forty delegates of the chief Spanish banks.

The principal Spanish banks were the hosts of the foreign delegates on Sunday 26 and on the evening of the same day the farewell dinner took place at the Palace Hotel in Madrid which was to be the closing meeting of the School. This brilliant occasion was honoured by the presence of the Finance Minister, Director-General of Banks and

Stock Exchanges, Sub-Governor of the Bank of Spain and the most prominent men of the managements of the Spanish banks. At this gathering eloquent speeches were made by Don Luis Olariaga, Director of the Consejo Superior Bancario and organiser of the School, who thanked all the delegates for the work which had been done and also expressed his gratitude to the personalities mentioned above for the honour of their presence: by Mr. Harry Oliver Nash, delegate of the Midland Bank Ltd., who in the name of all foreign delegates offered Sr. Olariaga an artistic gift as a token of admiration and gratitude; Don Eduardo Santos Rubio, delegate of the Banco de la República de Colombia who spoke in the name of the Latin-American delegates said that they would all have unforgettable memories of the Seventh International Banking Summer School which had enabled them to know Spain where they had felt themselves completely at home; and by Mr. Megrah, Secretary of the London Institute of Bankers, promoter of these Summer Schools which have such great interest for banks all over the world, who thanked all the delegates for their valuable co-operation and the Minister of Finance, the Director-General of Banks and Stock Exchanges and the rest of the authorities and personalities present for the honour of their presence which had contributed so much to the brilliant final gathering of the Seventh International Banking Summer School.

The final speech was held by the Minister of Finance who explained that the co-operation between the banks and the Government was so firm that although the Spanish law foresaw means of sanction these had never had to be applied. He underlined the system of equilibrium reached by the Consejo Superior Bancario where the representation of the regional and local banks was equal to that of the National banks and examined other aspects of the banking laws which ensure that the banking system functions with utmost efficiency and expressed his opinion that the latter constituted a sound pillar of support of the Spanish economy. He finished by congratulating all the foreign and Spanish delegates on the magnificent work which they had done in the course of the labours of the Seventh School, expressing his hope that it would contribute to further tighten the collaboration between the banks of all countries, to the benefit of the world's economy.

Banker and Customer

Bankers' Drafts

So far our review of the legal and practical responsibilities of both the paying banker and the collecting banker has been limited to the handling of cheques, but many other analogous instruments are paid and collected daily by branch banks throughout the country. It is necessary, therefore, to examine the special problems relating to those

other varied instruments, and this month bankers' drafts have been selected for special discussion.

Defined

A banker's draft may be defined as an unconditional order in writing addressed by one branch of a bank to its head office or to another branch, or by the head office of a bank to itself or to a branch, signed by the branch drawing it and requiring the branch to whom it is addressed to pay on demand the stated sum certain in money to the order of a specified person. In short, it is an order by a bank branch to a bank branch of the same bank to pay the given amount to a named payee or to his order. It may not be drawn payable to bearer because it would then be a bank note and Section 11 of the Bank Charter Act, 1844, makes it unlawful for any banker to draw, accept, make or issue in England and Wales any bill of exchange or promissory note, or engagement for the payment of money payable to bearer on demand.

As the draft is drawn by one office of the bank, on another office of the same bank, both drawer and drawee are the same legal person and the instrument is not a cheque or a bill of exchange within the meaning of the Bills of Exchange Act, 1882. It is, however, provided by Section 5 (2) of such Act, that where in a bill drawer and drawee are the same person the *holder* (not the banker) may treat the instrument, at his option, either as a bill of exchange or as a promissory note. Being a draft on demand, it requires a two-penny impressed or adhesive stamp, but a draft drawn by any bank in the United Kingdom upon any other bank in the United Kingdom, not made payable to bearer or to order, and used solely for the settlement or clearance of any account between those banks, is exempt from stamp duty. This latter special instrument, known as a banker's payment, used only between banks is, however, outside this survey. Moreover, a draft drawn on demand by a bank upon another bank is not a banker's draft within this article because it is merely a cheque subject to the Bills of Exchange Act. The drawer and drawee thereof are different legal persons.

Practical Advantages

A bank draft payable on demand is equivalent to cash and is obviously much more convenient and simple to handle and remit than large amounts of cash. Many contracts have to be completed by the payment of cash or its equivalent. It would be foolish of any bank customer requiring a large sum in cash to draw cash and hand it, or send it through the post, to his creditor or to his professional agent for delivery to the party requiring the cash in settlement. Moreover, a bank draft can be drawn for any required amount, and it is a fully negotiable instrument. It can be cashed, if need be, by the payee at the branch on which it is drawn (usually conveniently situate for the payee) or it can be crossed for greater safety and collected through a banking account. The following example illustrates the many advantages of using a bank draft instead of actual cash. Suppose that *A.* has contracted to purchase a house from *B.* for £4,000, and has paid the usual 10 per cent. deposit when he signed the contract. Completion is fixed for 9.30 a.m. on a given Wednesday and the solicitors acting for *B.* expect cash in settlement. *A.* therefore draws £3,600 cash from his bank on the Tuesday afternoon. It has to be counted out in £5 notes by the bank teller and checked by *A.*, who thereafter accepts the risk of loss or theft of a bulky parcel of cash carried from the bank to his

house, held overnight, and carried to the solicitors' office the next morning. At completion the cash is again laboriously counted and the responsibility for its custody is transferred to *B.* or his agent until it can be banked. Again, it has to be counted, often perhaps by the same cashier, upon acceptance for the account of *B.* How much simpler and safer it would have been if *A.* had obtained from his bank a crossed draft for £3,600 made payable to *B.* It is thus clear that customers should be encouraged to use a bank draft in all cases where material amounts of cash are required to settle a special transaction. Apart from the small stamp duty, there will be no additional cost involved in using a draft.

The Issue of a Draft

Where a customer requires a bank draft, he will be asked to complete a special requisition form stating the amount, the name of the payee, and the place of payment. Such instructions should be signed by the customer or by those properly authorised by mandate to indent for drafts on the customer's behalf, or to sign cheques on the account. The instructions may include an authority to charge the cost of the draft to the customer's account, in which case it will have to be stamped 2*d.*, or payment may be made by a cheque drawn by the customer payable to the issuing bank.

It is always important to ensure that the draft requisition form is signed by the customer or an authorised agent. The issue of a draft at the request of an employee of the customer who has no express authority to draw on the account or to indent for drafts, entails the risk that the employee may be misappropriating the proceeds. His production of a cheque properly drawn on the customer's account in favour of the bank for the amount of the draft may not suffice to prove his right to a draft. If any customer persists in sending a cashier or other employee to the bank to indent for drafts, and that employee has no express power to sign on the customer's account, it might be prudent to take a special mandate from the customer empowering his agent to sign draft requisitions only. Of course, where the indent includes power to charge the cost of the draft to the account, it must be signed strictly in accordance with the mandate for the drawing of cheques.

The Australian case of *Perel* v. *Australian Bank of Commerce* (Supreme Court of New South Wales, 1924) illustrates the dangers of issuing drafts against unauthorised instructions. The general manager of the bank's customers obtained drafts, payable to names of his own choosing, in exchange for cheques properly drawn by the customer in favour of the bank. He then collected the proceeds of the drafts for his own purpose. The bank was held to be liable to the customer. It contended that such a responsible officer as a general manager had ostensible authority, by reason of his position, to obtain drafts with the cheques made payable to the bank, but the Court decided that the customers had not held out to the bank that their general manager had power to obtain bank drafts whenever he thought proper. Cheques might be drawn payable to the bank for other reasons than the issue of drafts, and without proper instructions the bank could not know how its customers intended the proceeds of the cheque to be applied. A cheque drawn payable to the bank was merely a direction to the bank to hold the stated amount on behalf of its customers pending receipt of further instructions regarding its disposal, and such instructions should be from those authorised to draw

the cheque. The banker might, of course, succeed in other circumstances where it could be proved that the customer was estopped by conduct from denying the authority of the employee to obtain drafts in exchange for cheques validly drawn in favour of the bank, but it is surely foolish to accept any risk. Far better always to obtain a proper authority, either requiring the customer himself or those so entitled by the mandate to sign cheques on the account to complete the draft requisition, or calling for a special mandate authorising the stated parties to obtain drafts in exchange for cheques properly drawn in favour of the bank.

When the draft is issued a special postal advice will be sent by the drawer branch to the drawee branch describing the draft appropriately and instructing the drawee branch to effect payment upon presentation.

Lost Draft—Stopping Payment

Once issued the draft is in effect the promissory note of the bank and will be negotiated as the equivalent of cash. It follows that a bank will not normally be prepared to stop payment of its own draft. In the absence of a forged endorsement, a holder in due course will be entitled to payment (except where the draft has been crossed " not negotiable ") and the bank will hesitate to decline payment unless it can be satisfied that the draft had been lost or stolen without having been endorsed by the payee. Where any draft is presented for payment after the receipt of reliable notice of its theft or loss before endorsement by the payee, it can be returned marked " Draft stated to have been lost. Payee's endorsement requires verification ". The risks of payment against a forged endorsement are discussed later.

Occasionally, when a draft has been lost after issue, the customer approaches the bank to issue a duplicate. The greatest care is obviously necessary in such cases and a duplicate should not be furnished until sufficient time has elapsed to remove within reason the possibility that the original may nevertheless be presented for payment. Much will naturally depend upon the size of the draft and the standing of the customer, who, in any event, in consideration of the issue of a duplicate will have to indemnify the banker against the risk that the original may subsequently have to be paid to a holder in due course. Action against the bank in respect of a draft is statute barred six years from the date when the demand draft was drawn, but few customers who have lost a draft will be content to wait six years for a duplicate or for repayment of the amount they paid to the bank for the draft. The issue of a duplicate or the repayment of the cost of the original must, therefore, be judged prudently according to the facts of the case.

Payment of Bankers' Drafts

The payment of a banker's draft entails the same risk to the paying banker as the payment of a cheque. It is usually impossible to verify the endorsement of the payee and, if payment is actually made to someone who has no title to the proceeds, the true owner may attempt to recover from the paying banker. As a banker's draft is not a cheque, no protection can be obtained from Section 60 of the Bills of Exchange Act, 1882, if payment of an *uncrossed* draft is made against a forged or unauthorised endorsement. Instead, the paying banker has to rely on Section 18 of the Stamp Act, 1853, which provides that, where any draft or order drawn upon a banker for a sum of money payable to order on demand is presented for payment purporting to be endorsed by the person

to whom it is payable, it is sufficient authority to that banker to pay the amount of such draft or order to the bearer thereof, and it is not incumbent upon the banker to prove that the endorsement or any subsequent endorsement was made by or under the direction or authority of the person to whom the draft or order was, or is, made payable, either by the drawer or any endorsee thereof. It will be noted that in this statutory protection there is no mention of payment in good faith and in the ordinary course of business. The essential point is that when the draft is presented for payment it must purport to be endorsed by the person to whom it is payable. The protection is, therefore, wide and helpful when paying an open banker's draft.

A *crossed* banker's draft is, however, in a different category. Prior to 1932, a crossing on such a draft had no legal significance, although they were often crossed in practice as a possible means of limiting loss in the event of theft. The Bills of Exchange Act (1882) Amendment Act, 1932, legalised the position by bringing bankers' drafts into line with cheques. This Amendment Act provided that Section 76 to 82 of the Bills of Exchange Act, 1882, as amended by the Bills of Exchange (Crossed Cheques) Act, 1906, should apply to a banker's draft as if the draft were a cheque. Moreover, for the purpose of this amendment the expression " bankers' draft " means a draft payable on demand drawn by or on behalf of a bank upon itself, whether payable at the head office or some other office of the bank.

In other words, a crossing on a banker's draft on demand now operates in precisely the same way as a crossing on a cheque, and the banker paying a crossed draft incurs the same responsibilities and enjoys the same protection as a banker who pays a crossed cheque. If a crossed banker's draft is paid by the banker on whom it is drawn, in good faith and without negligence, to a banker (if crossed generally) or, if crossed specially to the banker to whom it is crossed, or his agent for collection being a banker, the paying banker is entitled to the same rights and is placed in the same position as if payment of the draft had been made to the true owner thereof. It is emphasised, however, that payment has to be made without negligence as well as in good faith. The draft must be paid in accordance with the crossing and the circumstances surrounding payment must be beyond reproach from the standpoint of negligence, which has already been discussed fully under the heading of the collecting banker.

The Collection of Bankers' Drafts

The collecting bank handling a bank draft is in precisely the same position as it is when collecting a cheque. No protection is available when collecting an open or *uncrossed* draft for a customer who has no title or a defective title thereto. With a *crossed* banker's draft the collecting banker relies upon Section 82 of the Bills of Exchange Act, 1882, which is now made available by the Amendment Act of 1932, quoted above. In short, the collection must be made for a customer in good faith and without negligence and in this respect the same principles apply precisely as those which have been discussed in the collection of cheques.

Practical Conclusions

From the above survey the following practical conclusions can be drawn for the guidance of the practical banker :—

1. When issuing a draft, care is necessary always to ensure that the requisition is signed by a party fully authorised to operate on the account of the customer or specially empowered to indent for such drafts.

2. Wherever possible, the issuing bank should cross the draft for the safety of the customer and to ensure that statutory protection will thereby be available to any collecting banker who collects the proceeds of the draft for a customer in good faith and without negligence.

3. In addition, the issuing bank should add the words " not negotiable " to the crossing on the draft, thereby avoiding the risk of any claim by a holder for payment of a draft which has been stolen from the true owner. Such precautionary action will simplify the problem of stopping payment should the need ever arise.

4. When asked to collect an uncrossed draft for any customer, the collecting banker should ask the customer to cross the draft before it is accepted for the credit of the account.

5. If the customer to whom a draft is issued, or the payee thereof, loses it, a duplicate should not be issued until the bank can be reasonably satisfied by lapse of time that the original is unlikely to be presented for payment, and even then the duplicate should be issued only to a satisfactory customer against the appropriate indemnity.

(Next month we will explore the legal complications and practical problems arising out of the use of so-called cheques with receipts and conditional orders which are outside the provisions of the Bills of Exchange Act, 1882.)

The Lending Banker

Balance Sheets

(Continued)

The Fixed Assets

Motors

It may be that, thinking of those long years of short supply of cars and lorries and of the high prices ruling for second-hand vehicles since the war, the reader will feel that at last we are approaching an asset which at auction will produce a figure equivalent to the balance sheet value. But such assets may not have to be sold for several years when supply may equal, if not exceed, the demand for them. Prudence again demands pessimism and the following points have to be considered.

The age and type of the motors, and the depreciation already written off, will furnish an initial picture to enable the banker to decide whether the balance sheet figures are reasonable in relation to current second-hand values. If the cost of repair work during the past trading period is disclosed in the profit and loss account, it will provide a further guide to the condition of the vehicles. A fleet of cars for travellers will command a wider market in the event of a forced sale than a number of lorries specially constructed for the particular business. The delivery vans of a wholesale or manufacturing concern are likely to last longer and maintain their value better than vehicles used by a building contractor who has to drive them over rough land. The possible market for vehicles of the given age and type is important, but in any event a substantial deduction from the balance sheet value will usually be deemed prudent in making an estimate of the forced sale value. In any case, if funds are short, repairs will be cut to the minimum and replacements avoided, so that the lorries or motors will be in a much worse condition if and when the business fails. In short, the break-up value of the motors owned by XYZ Ltd. will be a mere fraction of their balance sheet figure of £4,000, whatever they may comprise in the imagination of the reader. Assuming for the sake of argument that there is only one motor, a Bentley saloon purchased in 1953. It is probably well worth £4,000 to-day, but how much is it likely to realise in say 1958? Such reasoning has to be applied to all fixed but moveable assets under this heading.

Investments

In the balance sheet of a trading concern, investments, other than in subsidiary companies, may be regarded as *quasi* fixed assets. They are neither retained as agents of production nor acquired in the usual course of business for conversion into cash in the course of the trading cycle. Usually, they represent surplus capital resources not required to finance current trading, and invested to produce income pending a demand for their proceeds in the business. It follows that where a customer who wishes to borrow produces a balance sheet disclosing relatively large quoted investments, the banker will first suggest that they should be realised to reduce the amount required on overdraft. On the other hand, where the borrowing is for quite temporary purposes, it may not be advisable to realise a sound investment, which may yield more than the overdraft will cost the customer. In such circumstances, the investments will be available to the bank and most acceptable as marketable security. Whether they are retained for the time being, or sold to repay temporary bank accommodation, will depend entirely upon the detailed facts, but the basic principles are clear.

The next point is to ascertain the nature of the investments and the way in which they have been valued. A limited company is required by Clause 8 (1*a*) of the Eighth Schedule to the Companies Act, 1948, to disclose in its balance sheet under separate headings the aggregate amount respectively of the company's trade investments, quoted investments other than trade investments, and unquoted investments other than trade investments. Moreover, quoted investments, other than trade investments, have to be subdivided where necessary to distinguish between those which have and those which have not been granted a quotation or permission to deal on a recognised stock exchange. Where the aggregate market value of the quoted investments of a company, other than trade investments, differs from the amount of the investments stated in the balance sheet, a note of their market value has to be added revealing the market value. (See the figures

for XYZ Ltd.). Finally, it is worthy of note that a limited company has to disclose separately in its profit and loss account the amount of income received from investments, distinguishing between trade investments and other investments. This information may enable the banker to calculate the average yield on the investments shown in the balance sheet. In the case of a limited company, therefore, its balance sheet will disclose all the essential information required to decide the worth of such assets from the banking standpoint. With other customers, enquiry may be necessary to interpret the investment item and a schedule of investments requested for valuation purposes.

Where a list of the investments is supplied by the customer they can easily be valued at current prices and the appropriate margin deducted according to the nature of the holdings. If such details are not forthcoming, but the shares are known to be marketable, an adequate margin can be allowed on the given market value to cover the risk that speculative stocks may be included in the total. If there has been a general fall in market prices since the date of the balance sheet, a further allowance may be necessary. In the absence of reliable information concerning any of the investments, prudence dictates that their value should be ignored.

Quoted shares normally present little difficulty, but unquoted shares and trade investments are in a different category. Adequate information is rarely available to determine their value with any degree of accuracy, and their market for sale is often hedged with restrictions. The attitude of the banker will depend upon the amount locked up in such investments in relation to the total assets of the customer. Usually, the amount is relatively small and the item may be ignored. But where it is of sufficient importance, the banker may ask to see the latest audited balance sheet of the company or companies concerned so that the worth of the shares can be estimated from an analysis of such figures. Alternatively, a cautious estimate of their value may be based on the average yield from the shares over a few years compared with the average market yield on quoted shares of a similar type of business. These methods of valuation of unquoted shares from balance sheet figures can best be left for consideration until the completion of the explanation of the principles of break-up.

Shares in Subsidiary Companies

Nowadays this item frequently appears in the balance sheet of a limited company customer. It is undoubtedly a fixed asset, very difficult to realise and of doubtful value unless adequate information is forthcoming to enable the banker to make a reliable estimate.

Where any limited company holds more than half in nominal value of the equity share capital of another company, or as a member of another company controls the composition of its board of directors, then the other company is a subsidiary. The mother company with the majority interest in the subsidiary is known as the holding company. Except where, in the opinion of the directors of the holding company, there are good reasons against it, the financial year of all subsidiaries has to coincide with the financial year of the holding company. A company with subsidiaries is required to produce group accounts disclosing the position and profit or loss of the holding company and of each of its subsidiaries. These include a consolidated balance sheet and a consolidated profit and loss account, combining the position of the holding company with

that of the subsidiaries and showing separately the interest of any minority shareholders. Whilst this consolidated balance sheet serves to show the strength of the group, it is of little value otherwise to the banker who is lending to one of the companies in the group. In the event of collapse of the group, each company would be wound-up quite separately, so that from the gone concern aspect the banker is primarily interested in assessing only the worth of any amounts due to a holding company from its subsidiaries, or vice versa, and the value, if any, of shares held in subsidiaries. To achieve this it is necessary to analyse the balance sheet of each individual company in the group.

Firstly, the link between the holding company and its subsidiaries has to be considered. The closer that link, the more dependent the companies are upon each other, and the greater will be the risk of the collapse of the group in the event of the failure of any one company. If in fact they trade to a marked extent between themselves, each playing perhaps an essential part in the production of goods marketed by the holding company, the fortunes of the group will usually rise and fall together, but in many cases a subsidiary may operate and trade quite distinct from the holding company, whose majority interest is in the nature of an investment rather than a trade connection. In general, the closer the trading link between the holding and the subsidiary company, the more pessimistic will be the outlook of the banker estimating the worth of the holding company's interests in the subsidiary. Sometimes a holding company may itself be a subsidiary of another company, in which event there is a happy family group comprising perhaps a grandfather company, its subsidiary, the father company, and all its children. The complications of cross entries and set-offs between the members of such a family in order to value, say, the interests of the grandfather company in the father company can well be imagined if an attempt is made to analyse all the balance sheets of the members of the group.

The inter-company interests have to be revealed in the balance sheets of both the holding company and the subsidiaries. The holding company, according to Part II of the Eighth Schedule to the Companies Act, 1948, must disclose the amount of its assets consisting of shares in subsidiaries, and show separately the amounts owing, whether on loan account or otherwise, *from* or *to* the subsidiaries. In the balance sheet of any holding company, there will thus usually be three items distinct from the other assets and liabilities of the company.

1. Shares in subsidiaries.
2. Amounts due to the company from its subsidiaries.
3. Amounts due from the company to its subsidiaries.

The first two assets can be valued in the same way, although the shares are a fixed asset of the holding company, whilst the amounts due from the subsidiaries, unless on account of a long term loan, will be a floating asset, representing monies due for current inter-company trading activities.

The method of valuation is the same in principle as that now under discussion for any balance sheet viewed from the gone concern angle. If all the assets of the subsidiary are analysed and their worth assessed on the assumption that liquidation may occur in the indefinite future and the cash total representing the estimated proceeds is applied

first in payment of all the secured and preferential liabilities, any surplus will be available to meet the unsecured creditors, including the holding company which will rank *pari passu* with other trade and unsecured creditors, and take a dividend in the normal way if there is not enough to pay 20*s*. in the £. In such event, the worth of the floating asset described as amounts due from that subsidiary is ascertained and the shares held in the subsidiary are valueless. On the other hand, if there is an estimated surplus after payment of all the creditors (and any preference shares), it will be available for the shareholders, and the holding company's interest will be valued according to the proportion it holds of the total ordinary share capital of the subsidiary. Perhaps the following example will serve to clarify the principle.

Southtown Bank have the account of X Ltd. This company wishes to borrow unsecured and produces a balance sheet which reveals that it holds shares valued at £20,000 in a subsidiary, Z Ltd. In addition, there is £15,000 due by Z Ltd. to X Ltd., but nothing owing by X Ltd. to Z Ltd. The facts are clear from the balance sheet and a search at Bush House against Z Ltd. reveals that its issued share capital comprises £15,000, 6 per cent. preference shares, all held privately, and £30,000 ordinary stock, of which £20,000 is held by X Ltd. In response to the request of the bank, the directors of X Ltd. produce the latest audited balance sheet of the subsidiary, Z Ltd., and this is analysed on gone concern lines. It is estimated that the assets would produce upon a forced sale £100,000. Total creditors of Z Ltd. amount to £76,000, so they will all be paid in full and the item of £15,000 in the balance sheet of X Ltd., being monies due from Z Ltd., is therefore worth its face value. There is a surplus of £24,000 remaining after settling the claims of all creditors, but £15,000 of this is taken by the preference shareholders possessed of prior rights to the ordinary shareholders in the event of liquidation. Thus £9,000 remains for the equity capital, of which £20,000 out of £30,000 issued, or two-thirds thereof, is owned by X Ltd. It follows that the item " shares in subsidiary £20,000 " in the balance sheet of X Ltd. is worth, from this standpoint, £6,000. The minority shareholders take the remaining surplus of £3,000. Many subsidiaries to-day are wholly owned by the holding company and it is therefore convenient to adopt the view that any surplus remaining after payment of all outside creditors will be available to the parent concern.

Whether the banker thinks it necessary to indulge in such a detailed analysis of subsidiary company balance sheets in order to estimate the value of the interests which the holding company customer has in its subsidiaries, will naturally depend upon the extent of those interests in relation to the other assets of the borrowing company. Where the holding company is essentially an investment company, it will usually be preferable to lend direct to the subsidiary or subsidiaries which actually need the temporary accommodation and have the trading assets to support the proposal. In other cases where the holding company is the main productive unit, the interests in subsidiaries may perhaps be ignored or assessed at a prudent nominal value without resort to complicated calculations which, at best, are only remote estimates. In other words, the method must suit the case under review, instead of slavishly following a standard system regardless of the main point at issue. The foregoing paragraphs, however, describe the methods available to the banker if it is considered desirable and necessary to value the interests which a holding company borrower may have in subsidiary companies. They are all

separate legal entities and the loan will be the liability of the borrowing company and not of the group.

Loans to Directors (or Proprietors)

With limited company customers, this item can now appear only in the balance sheet of an exempt private company, because Section 190 of the Companies Act, 1948, made it unlawful for any other company to grant a loan to a director. There are very limited exceptions which do not concern us here, but where the asset does appear it may conveniently be regarded from the banking standpoint as a fixed asset, because its likelihood of speedy repayment will usually be remote. Where any advances have been made to directors or officers of a company, such loans must be disclosed separately in the balance sheet, in aggregate, together with any loans made or repaid during the period since the last balance sheet. (Section 197). Thus any borrowing by directors cannot be hidden from creditors or shareholders of the company. The only exceptions to this duty of disclosure are loans not exceeding £2,000 made by a company to any employee in accordance with a special scheme for the staff, and loans made in the ordinary course of business by a company, whose normal business includes lending money (e.g., a bank). The balance sheet of a limited company, therefore, will reveal the position clearly and the first query from the banking standpoint will surely be that the company has lent surplus funds to directors yet now requires to borrow from the bank. The reason for this policy may demand analysis according to the extent of the loan to the directors, who may well be unable to repay their debt. Perhaps they were unable to obtain financial assistance from other sources and the alleged floating asset of the company is in reality frozen.

For break-up purposes, the value of such loans will naturally depend upon the known financial standing of the director or directors concerned. Their names will not usually be disclosed in the balance sheet, but where the amount is material details should be obtained, and, if they are already borrowing from the bank on personal account or if they are guaranteeing the company's overdraft, their financial position may need to be closely watched. If they are customers of another bank, discreet enquiries may be thought necessary. Unless the directors are of undoubted financial standing with adequate resources outside the company itself, this type of asset can have little value from the gone concern standpoint. It may even discourage the banker from lending to the company in case further funds are diverted into loans to directors.

This concludes the survey of the typical assets which may be regarded as fixed assets from the banking standpoint. It is helpful to sub-total the forced sale values at this stage so as to see at a glance the minimum amount which such assets are estimated to realise in the event of failure. They will certainly be there upon liquidation or bankruptcy, but with cash shortages in previous months or years they will be in a poor condition, with repairs neglected and renewals deferred. Moreover, they are unlikely to command a wide market and may even be impossible to sell except as scrap. The drastic reduction which is usually made in the value of each item may at first appear to be extreme, but it is hoped that the reader will now realise the need for prudent pessimism in the light of past costly experience.

(Next month typical floating assets which appear in the balance sheets of customers will be discussed from the banking standpoint.)

Lloyds Bank Chairman

The Rt. Hon. Lord Balfour of Burleigh, D.C.L., D.L.

A CHANGE in the chairmanship of a clearing bank is a major event. When, moreover, it involves two personalities who have made their mark in many spheres of activity, it must attract widespread and keen interest. Such is the case with the change in office at Lloyds Bank. The outgoing chairman, Lord Balfour of Burleigh, forceful, dynamic, and a man of many parts, makes way for the younger, but also many-sided, Sir Oliver Franks.

Lord Balfour of Burleigh is a direct descendant of the grandfather of Robert the Bruce. The title was created in 1607 and, being a Scottish title created before the Act of Union between Scotland and England, it can pass in the female line. The title in fact passed to the Bruce family through the marriage of a sister of the fifth baron, who was unmarried, to Bruce of Kennet, Lord Balfour of Burleigh's ancestor. The fifth baron having been concerned in the Jacobite rising of 1715, the title was attainted in the following year and was restored only in 1869 to the father of the present Lord, who is thus the seventh baron; but for the attainder he would have been the eleventh. Lord Balfour of Burleigh's father, the sixth baron, held Cabinet office as an outstanding Secretary for Scotland from 1895 to 1903 and was chairman of many Royal Commissions.

Lord Balfour of Burleigh began his career in the City in 1907 as a clerk with the Alliance Assurance. As a boy, he suffered from lung trouble and was compelled to spend the winters in Switzerland. The knowledge of languages then gained stood him in good stead when the first World War broke out. Enlisting as an interpreter, he went to France in September, 1914, and served with the Indian Corps through the first winter in Flanders. After being wounded in the attack of May 9, 1915, he was transferred to Intelligence and sent to Paris for special work. During the war he was mentioned four times in despatches, was awarded the brevet of major and became a holder of the Legion d'honneur.

After demobilisation he returned to the City and from 1923 to 1935 he held a partnership in a bill-broking business, Henry Sherwood and Company. This made him known to the banks and began his rise to positions of authority. In 1928 he was appointed to the board of the Standard Bank of South Africa, and in the following year to the board of the National Bank of New Zealand, of which he subsequently became chairman in 1938.

In April, 1936, when the District Bank joined the London clearing, Lord Balfour of Burleigh became a director of that bank and its representative on the Committee of London Clearing Bankers. In April, 1945, the District Bank released Lord Balfour so that he could join the board of Lloyds Bank, of which he became Chairman on January 1, 1946. He was subsequently appointed to the boards of the Yorkshire Penny Bank, Bank of London and South America, Lloyds and National Provincial Foreign Bank and (as an extraordinary director and later deputy governor) the National Bank

of Scotland, as well as of Alexanders Discount Company. Since 1927 he has been a member of the Australian Mutual Provident Society's London board of which he is now chairman.

In 1948 he began a term of office for two years as President of the Institute of Bankers. From 1950 to 1952 Lord Balfour served as chairman of the Committee of London Clearing Bankers and President of the British Bankers' Association, his term of office thus including the period in which Bank rate was raised and new monetary policies adopted.

His activities have not been confined to the City. Since 1923 he has been a Representative Peer for Scotland, a responsibility that he has taken seriously, as his speeches in the House of Lords show. He is Deputy Lieutenant and J.P. for Clackmannanshire, in which county his home and estate at Brucefield is situated.

Public service has made extensive calls on his time. He was Chairman of the Medical Research Council from 1936 to 1948. He is an Alderman of Kensington Borough Council, having been a Councillor from 1924 to 1949, and Chairman from 1926 to 1949 of the Kensington Housing Trust, of which he is now President, and was an original member of the Central Housing Advisory Committee. He was President of the Royal Sanitary Institute from 1931 to 1941 and Chairman of the 1943 Scottish Hill Sheep Farming Committee, on whose report the Hill Sheep Act was founded. He is at present Chairman of the Hill Lands (North of Scotland) Commission, charged with promoting the development of cattle rearing. Until it was nationalised, Lord Balfour of Burleigh was a director of the London and North Eastern Railway, was Commissioner for General Purposes of Income Tax Acts for the City of London from 1928 to 1947 and is currently Chairman of the Board of Land Tax Commissioners for the City of London, as well as Vice-President of the Association of Municipal Corporations; Vice-President of the Building Societies Association; an honorary member of the Royal Institution of Chartered Surveyors, of the Institution of Municipal Engineers, and of the Society of Housing Managers. He is also a member of the governing bodies of Westminster School and Royal Lister Institute, and Treasurer of the Royal Scottish Corporation. He was given the Honorary degree of D.C.L. at Durham University in 1949.

This list of public duties would seem to leave little opportunity for recreation. But Lord Balfour of Burleigh is an expert skater and curler, holding the gold badge for skating in the English style; a sportsman who has spent many an hour shooting and stalking and a golfer who became Captain of the Royal and Ancient Golf Club of St. Andrews in 1949. He is a member of the Queen's Bodyguard of the Royal Company of Archers.

Lord Balfour of Burleigh did not inherit a large fortune with his title and it is a keen incisive mind allied to hard work and a determination not to be beaten by obstacles and setbacks which has enabled him to achieve his present position. His campaigns for improved housing conditions, dating from the time he went to live in Kensington, testify to his pertinacity. From the North Kensington slums his campaign was carried to a national level, and many of the pre-war Housing Acts contain clauses bearing his stamp. His interest in slum-clearing and replanning of cities endures to this day—he was the instigator and founder of Family Service Units—and the House of Lords recognises in him an authoritative speaker on housing problems.

He is fluent and convincing in speech and has made chairmanship into an art. He has a judicial mind that enables him rapidly to appreciate all points of view. Unfailing in courtesy he is both frank and sympathetic. To talk with him is a refreshing experience. He is fired by a zeal, probably inherited from his adventurous ancestry, that would do credit to a man half his age.

His annual speeches to shareholders of Lloyds Bank have been notable for their reasoned appraisal of the economic position of the country. Earlier this year, at what now proved to be his farewell appearance as Chairman at the bank's annual general meeting, he submitted a spirited addendum to his address which effectively confuted political arguments that the shareholder in general was gaining at the expense of the wage-earner.

Sir Oliver Franks

The Rt. Hon. Sir Oliver Franks, G.C.M.G., K.C.B., C.B.E., M.A., succeeds to the chairmanship of Lloyds Bank Limited at the age of 49. Educated at Bristol Grammar School and Queen's College, Oxford, Sir Oliver Franks became a fellow of Queen's College in 1927 and subsequently a tutor and University Lecturer in Philosophy. On the outbreak of war in 1939 he was called to Government service, becoming Permanent Secretary to the Ministry of Supply in 1945. In 1946 he returned to an academic life, as Provost of Queen's College, but forsook it on his appointment as British Ambassador at Washington in 1948. After an ambassadorial career of four years he returned to this country, and in March, 1953, he accepted an invitation to join the Board of Lloyds Bank Limited. In June, 1953, he was elected Deputy Chairman, and the announcement of this appointment stated that it was the intention that he would, in due course, succeed to the chairmanship of the bank.

Banking Appointments, etc.

Barclays Bank Limited

Head Office	Mr. F. C. Woodward to be an Assistant General Manager.
	Mr. A. S. Bates, of Trustee Department, Chief Office, to be an Assistant General Manager.
Head Office, Staff Department.	Miss M. J. Carey, of Head Office, Staff Department, to be an Assistant Staff Manager.
Head Office, Trustee Department.	Mr. E. N. Adcock, of Trustee Department, Chief Office, to be Trustee Manager.
Belgravia	Mr. R. B. L. Moyle, of Purley, to be Manager.
Blackfen	Mr. W. D. Glanfield, of Head Office, Unattached, to be Manager.
Lea Bridge Road, 323	Mr. A. P. Thomas, of Romford, to be Manager.
Leadenhall Street	Mr. C. F. Blake, of 54, Lombard Street, to be Manager.
Norwood, West	Mr. R. H. Stone, of Blackfen, to be Manager.
Purley	Mr. N. A. Goodliffe to be Manager.
Basingstoke	Mr. R. B. Pinniger, of King Street, Reading, to be Manager.
Bicester	Mr. R. F. Hall, of Cornmarket Street, Oxford, to be Manager.

Builth Wells and Llanwrtyd Wells.	Mr. J. H. Evans, of Rhayader, to be Manager.
Chichester	Mr. H. Clarkson, of Basingstoke, to be Manager.
Ebbw Vale	Mr. D. W. Jones, of Bridgend, to be Manager.
Haverfordwest . . .	Mr. R. L. Morris, of St. Clears, to be Manager.
Horncastle	Mr. J. G. Freeman, of Newark-on-Trent, to be Manager.
Ilkeston	Mr. W. W. Brock, of Mansfield, to be Manager.
Kettering, Market Place .	Mr. C. J. E. Steff, of Northampton, to be Manager.
Kettering, Silver Street .	Mr. F. L. Hubball, of Ilkeston, to be Manager.
Lancaster	Mr. F. Boardman, of Sale, to be Manager.
Northampton . . .	Mr. E. H. Hyde, of Market Place and Silver Street, Kettering Branches, to be Manager.
Pulborough	Mr. D. B. Evans, of Southampton, Shirley, to be Manager.
Rhayader	Mr. J. R. Jones, of Llanwrtyd Wells, to be Manager.
St. Clears	Mr. D. G. Peregrine, of Carmarthen, to be Manager.
Sale	Mr. A. M. Gunn, of Manchester, Deansgate, to be Manager.
Stockton-on-Tees . .	Mr. K. Turnbull, of Stockton-on-Tees, to be Manager.
Swansea, Wind Street .	Mr. H. Watkins, of St. Mary Street, Cardiff, to be Manager.
Todmorden . .	Mr. W. H. Newby, of Manchester, Corn Exchange, to be Manager.
Wrexham	Mr. W. E. S. Morse, of Builth Wells and Llanwrtyd Wells, to be Manager.
Cannon Street Station .	Mr. R. M. Cooper to be Assistant Manager.
Lombard Street . . .	Mr. C. E. O. Millett, of Cannon Street Station, to be an Assistant Manager.
Minories	Mr. L. Bristow, of Head Office, Advance Department, to be Assistant Manager.
Bradford, 69, Market Street	Mr. E. Whittle, of Cross Street, Manchester, to be Assistant Manager.
Cardiff, St. Mary Street .	Mr. E. Morris, of Cardiff Docks, to be Assistant Manager.
Northampton . . .	Mr. A. Starling to be Assistant Manager.
Oxford, Cornmarket Street	Mr. F. C. Mitchell, of Guildford, to be Assistant Manager.
Reading, King Street .	Mr. C. V. Toole, of Winchester, to be Assistant Manager.

District Bank Limited

Eccleshall	Mr. J. H. Perrow, of Garstang, to be Manager.
Llandudno	Mr. S. L. Wood, of Colwyn Bay, to be Manager.
Nantwich	Mr. R. W. Lomas, of 35, Fishergate, Preston, to be Manager.

Lloyds Bank Limited

Pall Mall, S.W. . . .	Mr. W. R. Pilcher to be a Sub-Manager.
Barnstaple	Mr. L. E. Dolbear, of Horsham, to be Manager.
Bexleyheath . . .	Mr. A. H. Coombes, T.D., of Covent Garden, W.C., to be Manager.
Canterbury . . .	Mr. T. M. Barker to be Manager.
Covent Garden, W.C. .	Mr. A. J. Davis, of Administration Department, Head Office, to be Sub-Manager.
Horsham	Mr. R. H. Pepler, of Advance Department, Head Office, to be Manager.
Law Courts, W.C. . .	Mr. M. T. Wilson, M.B.E., of Pall Mall, S.W., to be Manager.
Llandovery . . .	Mr. D. T. Lewis, of Cardiff, to be Manager.
399, Oxford Street, W. .	Mr. R. B. Woolley, of Woolwich, S.E., to be Sub-Manager.
Pembroke Dock . .	Mr. H. G. Anfield, of Aberystwyth, to be Manager.
Queen Street, Cardiff. .	Mr. F. G. Matthews, of Pembroke Dock, to be Manager.
Rhos-on-Sea . . .	Mr. T. G. Nield, of Llandudno, to be Manager.
Tenby	Mr. G. L. H. Blackmore, of Pontypridd, to be Manager.
Westminster House, S.W.	Mr. N. W. Dierden, of Inspection Staff, to be Sub-Manager.

Martins Bank Limited

Consett	Mr. W. D. Jennings, of Lanchester, to be Manager.
Guisborough	Mr. J. W. Garbutt, of Barnard Castle, to be Manager.
Lanchester	Mr. J. E. Davy, of St. John's Chapel, to be Manager.
Manchester, Queen's Park	Mr. R. Ashburn, of Manchester District Office, to be Manager.
Newcastle-upon-Tyne, Elswick.	Mr. D. J. Palmer, of Gallowgate, to be Manager.
St. Anne's-on-the-Sea	Mr. C. Spencer, of Queen's Park, to be Manager.
St. John's Chapel	Mr. G. Wiseman, of Guisborough, to be Manager.

Midland Bank Limited

Head Office	Mr. J. A. Cave, of Lichfield Street, Wolverhampton, and Mr. N. Withey, of Cloth Hall Street, Huddersfield, to be Superintendents of Branches.
	Mr. E. E. Owen, of Prescot, to be a District Staff Superintendent.
London: Baker Street	Mr. V. E. Mills, of Upper Tooting, to be Manager.
London: East Dulwich	Mr. A. Cronk, of Bromley, to be Manager.
London: Fleet Street	Mr. R. G. D. Hawkins, of Baker Street, to be Manager.
London: Tooting Broadway.	Mr. J. Stowers, of Thornton Heath, to be Manager.
London: Upper Tooting	Mr. L. F. Beadle, of Coleman Street and Moorgate, to be Manager.
Bentham	Mr. N. Atkinson to be Manager.
Birmingham: Small Heath	Mr. R. S. Baldock, of Smithfield, Birmingham, to be Manager.
Leicester: Granby Street	Mr. C. J. Harrison to be Assistant Manager.
Liverpool: East	Mr. T. A. Dawson, of Wilmslow, to be Manager.
Petts Wood	Mr. B. L. Simmonds to be Manager.
Prescot	Mr. F. H. Hall, of King Street, Manchester, to be Manager.
Rochdale	Mr. G. Ashton to be Manager.
Settle	Mr. P. D. Wilson, of Bentham, to be Manager.
Sheffield: Abbeydale Road	Mr. H. Fairburn, of Woodhouse, Sheffield, to be Manager.
Southport	Mr. G. P. Hilldrup, of East branch, Liverpool, to be Assistant Manager.
Stapleford	Mr. G. B. Bellamy, of Arkwright Street, Nottingham, to be Manager.
Thornton Heath	Mr. W. Conn, of Cheam, to be Manager.
Wolverhampton: Lichfield Street.	Mr. P. J. Wardle to be Assistant Manager.

The National Bank of Australasia Limited.—Mr. R. E. Ash to be London General Manager and Mr. T. B. C. Bell to be Manager, London Office. Mr. W. T. Hall has been re-transferred to the Australian Staff and appointed Manager, Foreign Department at Head Office, Melbourne.

National Provincial Bank Limited

Beaumaris	Mr. A. L. Williams, of Holywell, to be Manager.
Aston Manor, Birmingham	Mr. F. N. Boddy to be Manager.
Daventry	Mr. C. D. Abbott, of Market Drayton, to be Manager.
Fakenham	Mr. H. Down to be Manager.
Hanley	Mr. W. M. Craven, of Leeds, to be Manager
Leamington Spa	Mr. R. O. Broughton, of Stevenage, to be Manager.
Leeds	Mr. W. Elviss to be Assistant Manager.
Market Drayton	Mr. L. C. Pritchard, of West Bromwich, to be Manager.
Northampton	Mr. H. E. Cooke to be Sole Manager.
Redruth	Mr. W. G. Allen, of Hay-on-Wye, to be Manager.
To be Inspectors of Branches.	Mr. E. W. Smithson, of Smiths Bank, Nottingham. Mr. W. F. Ward of Middlesbrough.

THE ROYAL BANK OF CANADA.—Mr. J. R. Peet to be Resident Inspector of Venezuelan branches and Manager of Caracas branch.

THE UNION BANK OF SCOTLAND, LIMITED

Auchtermuchty	Mr. Gavin Lawrie McLuggage to be Manager.
Clydebank	Mr. Frederick William Strachan, of Bothwell Street, Glasgow, to be Manager.
Tradeston, Glasgow . .	Mr. Thomas Dykes, of Trongate, Glasgow, to be Manager.

WESTMINSTER BANK LIMITED

Head Office	Mr. J. Loftus, of St. Ann's Well Road, Nottingham, to be an Inspector of Branches.
Berkeley Square . . .	Mr. C. D. Collins, of Regent Street, to be Manager.
Birkenhead and Bebington	Mr. W. G. Flinn, of Ramsey, to be Manager.
Brondesbury . . .	Mr. J. G. Brewer, of Sloane Square, to be Manager.
Chelmsford Trustee Branch (new Branch).	Mr. K. D. Neil, of Trustee Department, to be Manager.
Iron Gate, Derby . .	Mr. J. B. Clay to be Assistant Manager.
Kew Gardens . . .	Mr. E. Chandler, of Ealing, to be Manager.
Liverpool	Mr. A. Scarisbrick, T.D., of Walton, Liverpool, Kirkby, near Liverpool, and Stanley Road, Bootle, to be Assistant Manager.
Maldon, Essex . . .	Mr. W. E. C. Harrap, of Bury St. Edmunds, to be Manager.
Preston	Mr. J. Malburn, of Liverpool, to be Manager.
Ramsey.	Mr. S. C. Kissack, of Castletown, to be Manager.
St. Ann's Well Road, Nottingham.	Mr. C. W. K. Borsley, of Mansfield, to be Manager.
St. John's Wood . .	Mr. R. V. Lucas, of Berkeley Square, to be Manager.
Walham Green . . .	Mr. A. M. Phelps, of Victoria, to be Manager.
Walton, Liverpool, Kirkby, nr. Liverpool, and Stanley Road, Bootle.	Mr. C. T. Dawson, of Wavertree, to be Manager.
Wembley, Kingsbury, and Wembley Park.	Mr. S. W. Gilbert, of Brondesbury, to be Manager.

New Branches, etc.

BANK OF ADELAIDE.—At Kilkenny, South Australia (formerly an agency).

THE CHARTERED BANK OF INDIA, AUSTRALIA AND CHINA.—At Phnom Penh, Cambodia.

LLOYDS BANK LIMITED.—At 189, Shenley Road, Boreham Wood; Ashby (Sub. to Scunthorpe); Stanley Cattle Market (Sub. to Liverpool); and at 22, Amwell Street, Hoddesdon (Clerk-in-Charge branch, sub. to Hertford).

MARTINS BANK LIMITED.—Annfield Plain branch now under the supervision of the Consett Manager. Stokesley branch (Sub. to Stockton-on-Tees) is raised to the status of a full book-keeping office under control of the Guisborough Manager. Hutton Rudby branch now sub. to Stokesley.

MIDLAND BANK LIMITED.—At Petts Wood (formerly under the management of Bromley branch).

NATIONAL PROVINCIAL BANK LIMITED.—At Fakenham.

THE STANDARD BANK OF SOUTH AFRICA.—At Gold Street, Johannesburg, and Virginia, Orange Free State (formerly agencies).

WESTMINSTER BANK LIMITED.—A Trustee branch at Chelmsford.

100 Years Ago

From *The Bankers' Magazine* of November, 1854

PEOPLE'S INVESTMENTS

An important element in the development of social progress, and the promotion of the comfort and happiness of the masses, is the encouragement of provident habits, by affording facilities for the safe, and, as far as may be, the profitable investment and accumulation of those trifling sums which, only while in the enjoyment of health and when employment is abundant, those who are altogether dependent upon the labour of their hands are enabled to lay by. The rigorous self-denial which must be exercised by the working man to put aside anything out of his weekly wages, after paying rent and providing the necessary food and clothing for himself and family, even those who are next above him in the social scale are scarcely cognisant; though there are a few amongst us who would be disposed to question the great value of those little investments to society in general, in fostering industrial habits, and lessening the aggregate of intemperance, pauperism, and crime. But, as these results are desirable, so is it essential that the stability and trustworthiness of the various institutions which compete for the poor man's investment, should, as far as possible, be tested. It is obvious, that if from any cause the reward of the self-denying and systematic economy which enabled the investment to be made, should turn out to be the loss of the capital deposited, or even of the anticipated profit, it would, in nineteen cases out of twenty, operate as an effectual barrier to further effort on the part of the same individual, and probably of all over whom his example and influence extended.

In years gone by, the poor man never thought of attempting to secure an independence, or to make provision for sickness or old age, by accumulating small savings from time to time. If he could manage to scrape together a pound or two in the course of the year, it was, if not wasted in a debauch, in the majority of cases expended in the purchase of a share in a lottery ticket. But the ruin of thousands, morally as well as pecuniarily, by that vicious system—the inveterate habits of gambling and undue speculation which it generated, at length brought about its abolition by legislative enactment; and thus the door was closed upon that which for many years was possibly the most popular of all speculations, and the most certain means, except the gambling table, of losing money, that was ever known.

Almost the only other means of investment at that time and for some years subsequently open to those whose only capital was their labour, were the old benefit societies—the bulk of which failed at the moment they were most needed, that is, when the benefit was claimed; their tables having been calculated upon the amount of sickness and the rate of mortality in comparatively young lives, without taking into account the increasing demands which the ageing of those lives brought upon the sick, the superannuation, and the death funds. The disappointment and misery which that failure entailed upon a large proportion of the most deserving classes of the community, contributed mainly to the popularity with which the savings banks, which had then just been established, were regarded, and which, being under Government control, and based upon principles which assured to the depositor the return of his capital on demand, together with a moderate but certain rate of interest, afforded to him that security which no class of investment he could up to that time command, gave. Two or three isolated instances, where neglect or gross mismanagement had occasioned loss to a comparatively small number of depositors, and which the Government, though they afterwards took steps to prevent recurring, declined to bear the responsibility of, raised some alarm in the public mind, as to the stability of even these institutions . . .

Monetary Review

CREDIT supplies varied considerably during the greater part of last month, but in general Lombard Street had difficult conditions to contend with. An acute shortage developed at the end of September the discount market escaping narrowly from having to borrow at the Bank of England, and the demand for accommodation exceeded normal supplies of credit for several days at the beginning of October. The market then became much easier, with funds so plentiful that the authorities found it desirable to dispose of the surplus by re-selling bills to the market.

Another spasm of stringency occurred at the middle of the month, when rather heavy transfers of revenue from the banks to the Treasury coincided with exceptional withdrawals from the market in connection with the transfer of oil industry funds. Up to 3 per cent. was paid for overnight loans, and the second half of the month found the discount houses struggling to balance their books on most days.

	Floating Money	Market Rates—Bank Bills: Three Months	Four Months	Six Months	Bank Rate	Date of last Alteration
	%	%	%	%	%	
Sept. 23, 1954	1[illegible]–1[illegible]	1[illegible]	1[illegible]–1[illegible]	1[illegible]–1[illegible]	3	May 13, 1954.
Oct. 21, 1954	1[illegible]–1[illegible]	1[illegible]	1[illegible]–1[illegible]	1[illegible]–1[illegible]	3	
Movement		[illegible]	$\frac{1}{64}$	—		

With credit generally scarce, the discount houses required fairly regular assistance from the special buyer of bills, which was given mainly by purchases from the banks. The rates at which this "made" money was passed on to the market were frequently above normal. December and early January bills were occasionally bought by the banks at $1\frac{19}{32}$ per cent. against a ruling rate of 1[illegible], in spite of resistance by some houses to parting with bills at the higher figure. After having been reduced fractionally in the last week of September to conform to the lower Treasury bill allotment rate, the discount houses, rates for buying commercial bills were unaltered.

Having increased their tender price for Treasury bills at the last offering of September in order to obtain a reasonable supply of end-year bills, the discount houses raised their bid further to £99. 12*s*. at the tender on October 1. This increase was partly due to a desire for a good allotment of early January bills, which are popular maturities with the banks since they mature when large sums of revenue are being handed over to the Treasury. The raising of the tender price had the desired effect, the discount market allotment amounting to 74 per cent. of applications, the highest ratio this year.

In subsequent tenders the discount market's aim was to secure as high an allotment as possible in the face of anticipated heavy applications from other tenderers, and although the market's proportionate allotments were smaller than at the beginning of the month, they were still of reasonable size. This, however, was only achieved by maintaining the tender price at the previous higher level in spite of rather stringent conditions in the short-loan market.

In the absence of any special factors affecting the size of the tenders, the Treasury has now settled down as a regular borrower each week on tender bills. The amount of new bills allotted over corresponding maturities was just over £100 million last month.

TREASURY BILLS

Date 1954		*Bills Offered (000's omitted) £	Bills Applied for (000's omitted) £	Average Rate % s.	Average Rate % d.
Feb. 26	.	250,000	400,765	41	3·37
Mar. 5	.	270,000	412,905	41	3·83
„ 12	.	270,000	414,560	42	2·61
„ 19	.	260,000	365,575	42	3·64
„ 26	.	270,000	405,205	42	3·62
Apr. 2	.	270,000	399,040	42	4·01
„ 9	.	270,000	392,195	42	4·05
„ 15	.	230,000	417,175	41	7·41
„ 23	.	230,000	415,375	41	7·34
„ 30	.	230,000	437,545	40	11·36
May 7	.	240,000	405,615	40	10·84
„ 14	.	260,000	391,695	34	1·75
„ 21	.	270,000	400,655	34	3·24
„ 27	.	270,000	426,825	34	3·33
June 4	.	270,000‡	414,325	32	11·61
„ 11	.	260,000†	418,325	32	3·56
„ 18	.	260,000†	400,440	31	7·57
„ 25	.	260,000	426,015	32	1·48
July 2	.	270,000	383,955	32	3·41
„ 9	.	270,000‡	396,195	31	3·09
„ 16	.	240,000	433,145	31	2·27
„ 23	.	230,000	423,055	31	2·52
„ 30	.	240,000	414,220	31	2·8
Aug. 6	.	240,000	397,585	31	3·09
„ 13	.	250,000	387,485	31	10·56
„ 20	.	260,000	398,245	32	2·66
„ 27	.	260,000	422,715	32	3·19
Sept. 3	.	270,000	398,625	32	4·02
„ 10	.	270,000	397,830	32	10·75
„ 17	.	280,000	402,545	32	11·74
„ 24	.	280,000	427,990	32	5·86
Oct. 1	.	280,000	397,680	32	0·23
„ 8	.	280,000	417,720	31	11·50
„ 15	.	270,000	429,120	31	11·18
„ 22	.	260,000	416,470	31	11·30

*To be taken up during following week. ‡ Under-allotted by £20 million. † Under-allotted by £10 million.

Changes recorded in the Bank of England returns were relatively unimportant. The active note circulation in the early part of the month reflected the usual return of currency after the holiday outflow. From now on, the circulation may be expected to rise fairly consistently until Christmas, and it goes without saying that a fresh expansion of the fiduciary note issue from its present level of £1,675 million will be necessary within the next two months—possibly to a figure beyond the record fiduciary issue of £1,750 million established in July last.

The slackening of stock exchange business at the end of September proved to be no more than a temporary phase. Markets were good again during the greater part of last month, with gilt-edged stocks rather firmer, in spite of the diversion of interest of some institutional investors to the John Summers issue. Industrial equities moved ahead again, with the assistance of further good company dividend and profit statements and several capitalisation schemes, buyers ignoring the inevitable effect on industry of the prolonged dockers' strike. In the foreign market, German bonds were a good feature, buying being stimulated by the success of the Nine-Power Conference. Elsewhere, one of the best markets was that for oil shares, a persistent demand being reported for the leaders and also for the shares of many of the smaller but still important oil companies.

A good deal of conjecture was current last month as to the possibility of a new Government conversion operation before long. As far as actual issues were concerned, the most important was the offer for sale of 9,000,000 ordinary £1 shares in John Summers and Sons at 24*s.* 6*d.* each. This issue, the fourth offer to be made of steel company shares in the course of the denationalisation of the iron and steel industry, was over-subscribed, and applications had to be scaled down in allotment, those for more than 1,000 from the general public (not from previous investors in the company) receiving

only 34 per cent. of the amounts applied for. A moderate premium on the new shares was established almost immediately when stock exchange dealings started. The success of this issue, as compared with its predecessors in the de-nationalisation process, largely reflects the improvement in general market conditions in recent months, as well, perhaps, as a more confident appraisal of the risks of a fresh nationalisation of iron and steel at some future time.

Apart from the Summers issue, last month witnessed a number of varied industrial offers, but these were made mostly to existing holders of securities in the individual companies concerned.

BANKS HOLDING MORE TREASURY BILLS

The London clearing banks' combined statement for September showed a further advance in deposits, and a big expansion of the banks' investment in Treasury bills. Gross deposits advanced to £6,538·9 million, a new high level for the current year, and net deposits were £20·8 million higher at £6,300·2 million, also the highest since December last. This latter increase, however, was less than half the rise in August-September, 1953, and Lloyds Bank seasonally adjusted index of net deposits declined from the all-time record of 110·4 in August to 110·0 in September.

(Figures in £1,000,000)

	Deposits, &c. £	Net Deposits	Cash and at Bank	p.c. to Deposits	Money at call, &c. £	Discounts Treasury Bills £	Other Bills	Investments £	Advances
September, 1954	6,538·9	6,300·2	520·9	8·0	417·6	1,181·5	88·1	2,[illegible]0·5	[illegible]
August, 1954	[illegible]18·8	6,279·4	533·[illegible]	8·2	437·8	1,126·8	82·[illegible]	2,3[illegible]8·0	[illegible]
July, 1954	6,466·1	6,[illegible]	[illegible]	[illegible]	427·9	1,041·1	[illegible]	2,350·[illegible]	[illegible]
June, 1954	6,533·2	[illegible]	531·3	8·1	451·5	1,0[illegible]9·9	[illegible]2	2,31[illegible]·4	[illegible]·0
May, 1954	6,3[illegible]5·2	6,101·[illegible]	500·6	7·9	46[illegible]·1	[illegible]	8[illegible]·9	2,304·7	1,79[illegible]
April, 1954	6,377·5	6,0[illegible]·5	[illegible]	[illegible]·4	48[illegible]·2	[illegible]·8	[illegible]	2,279·9	1,772·1
March, 1954	[illegible]3·2	[illegible]·9	[illegible]	8·2	[illegible]7·7	[illegible]	8[illegible]·2	2,269·1	[illegible]
February, 1954	[illegible]7·1	[illegible]	[illegible]·5	8·1	4[illegible]·6	1,034·0	[illegible]·2	[illegible]	1,780·6
January, 1954	[illegible]·6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]·1	2,2[illegible]·1	[illegible]·7
December, 1953	6,[illegible]	6,367·2	[illegible]	[illegible]	[illegible]	1,[illegible]·2	7[illegible]	2,275·[illegible]	[illegible]
November, 1953	6,[illegible]·6	6,193·7	520·3	8·1	[illegible]	1,290·[illegible]	[illegible]	2,2[illegible]·2	[illegible]
October, 1953	6,3[illegible]	6,1[illegible]	[illegible]·4	8·1	[illegible]	1,2[illegible]	[illegible]	[illegible]	[illegible]
September, 1953	[illegible]	6,0[illegible]	51[illegible]	[illegible]·2	4[illegible]	1,[illegible]	[illegible]·8	2,[illegible]	1,662·3
August, 1953	6,210·1	6,0[illegible]·2	[illegible]	8·2	[illegible]	1,275·5	5[illegible]·2	2,13[illegible]·7	1,676·4

An expansion of £54·7 million to £1,181·5 million in the banks' Treasury bill portfolio was by far the most important change among the assets. It was offset to some extent by a decline of £20·2 million in the call loans outstanding—mainly representing the accommodation to the discount market against bills and short-dated Government bonds. These contrary movements suggest that the policy of buying bills in preference to lending money against them, which was referred to in *The Bankers' Magazine* in September last (page 273) is being continued.

The aggregate holding of investments increased by £12·5 million, but £10 million of this was due to an increase in the investments of the National Provincial. A decline of £13·4 million to £1,815·6 million in advances was a good deal less than might have been expected in view of the calls which fell due during the period on the recent British Electricity loan. Since there is little doubt that a large part of the £40 million represented by these calls was used to reduce bank loans, the small decline in the total of advances suggests that borrowers other than the electricity industry were granted a large amount of additional accommodation.

Stock Exchange Values

STOCK Exchange price movements during the first half of October presented a contrast between fixed-interest and variable-dividend securities. British Government stocks were very steady under the influence of a consistent investment demand, particularly for the long-dated and undated issues. Talk of the possibility of a fresh Government loan operation in the early future had no great effect on the market. The firmness of the gilt-edged market kept other investment stocks steady in spite of the competition from new industrial debenture issues. The success of the Nine-Power conference brought in a demand for German bonds, and Japanese issues responded to better reports concerning Japanese finance and trade. Industrial ordinary shares went ahead strongly at the beginning of the month, but became rather hesitant later owing to the accumulating evidence of widespread labour unrest, although the latest company dividend and profit statements have been as encouraging as ever. In more speculative markets, rubber shares advanced with the price of the commodity, and there was a general improvement in oil shares. The second half of October witnessed an all-round advance in Stock Exchange values, which, however, is not reflected in our usual mid-monthly statistics.

Aggregate value of 365 representative securities on September 15, 1954 . .	£6,911,011,000
" " " 365 " " " October 15, 1954 . . .	£6,966,189,000
Increase .	£55,178,000

OUR INDEX NUMBER

Below will be found the movements in the index number of the security values of our list of 365 representative stocks from the year 1929 down to the present time. Limitations of space have made it necessary to omit each month our lengthy list of variations in the fixed and variable dividend securities over a period of years, but once a year (in the January issue) we give the complete list of the index numbers of those stocks. The total index number for October, was 125·4, as compared with 124·5 for the previous month. The index number of the fixed interest group now stands at 119·4, as compared with 118·9 for the previous month, and in the variable dividend list the index number is 138·1, compared with 135·9 for the previous month.

Security Values Index Number
(*December, 1921 = 100)

Year	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1929 .	129·6	128·1	127·3	127·3	125·6	125·4	126·5	127·0	127·3	126·1	120·9	121·0
1930 .	121·7	121·8	123·3	124·2	121·9	119·0	120·3	118·1	119·3	117·6	116·8	114·4
1931 .	114·9	112·6	114·1	111·9	108·0	108·6	109·3	104·3	99·0	103·1	103·1	98·5
1932 .	110·9	101·7	105·5	102·1	101·8	100·6	105·5	108·4	111·4	112·5	109·6	109·4
1933	110·2	111·1	111·2	112·4	112·5	114·3	115·9	117·6	118·7	118·4	117·6	117·6
1934 .	120·4	121·5	122·9	123·8	122·6	121·8	122·5	122·3	122·8	123·6	126·9	126·5
1935 .	128·5	125·8	123·7	124·9	125·8	125·5	126·4	125·8	120·6	121·3	125·5	126·4
1936 .	128·1	129·6	128·6	130·2	129·1	128·8	129·4	131·0	131·7	133·9	133·8	133·1
1937 .	132·6	129·7	128·4	128·2	127·3	125·6	125·1	125·0	123·0	121·6	121·0	121·2
1938 .	121·6	120·7	115·9	119·2	117·0	116·3	118·9	117·7	113·8	114·2	114·4	112·4
1939 .	112·0	111·7	110·0	107·1	110·0	109·8	108·8	107·4	103·3	106·3	108·7	108·7
1940 .	112·2	114·3	114·6	114·1	110·4	104·6	106·0	107·8	108·2	110·0	111·3	112·0
1941 .	113·6	112·8	112·9	112·4	113·3	113·5	115·6	116·0	117·5	117·1	117·8	117·1
1942 .	118·5	117·0	117·0	117·3	117·2	117·5	118·1	118·2	119·0	120·4	129·0	120·6
1943 .	122·7	122·5	122·7	123·3	122·3	122·1	123·3	123·0	123·1	123·4	122·6	122·7
1944 .	123·3	123·8	123·6	123·5	123·8	124·5	125·0	125·1	124·6	124·9	125·3	125·5
1945 .	126·1	126·1	126·3	127·1	126·6	126·4	127·1	126·1	126·3	127·0	127·2	126·8
1946 .	128·3	128·9	128·3	130·1	131·7	132·1	132·2	131·4	130·4	130·0	132·1	133·2
1947 .	133·8	132·3	132·2	131·3	132·0	131·3	131·0	125·2	123·7	125·0	125·6	127·9
1948 .	128·8	127·6	126·8	127·5	128·2	128·0	126·9	127·0	127·1	127·3	127·6	127·5
1949 .	128·0	128·1	126·7	126·6	126·5	124·1	122·1	119·8	119·9	120·3	117·7	119·8
1950 .	119·1	119·0	118·8	119·5	119·7	121·4	119·9	120·0	122·3	123·8	124·0	122·2
1951 .	123·6	123·6	122·8	122·4	123·0	122·3	121·1	120·5	120·8	121·3	119·7	115·9
1952 .	115·4	114·7	111·6	112·9	113·1	110·2	110·3	110·7	113·7	112·6	112·0	113·0
1953 .	113·5	113·9	114·9	115·1	114·6	115·2	114·9	115·6	115·7	116·9	118·1	117·5
1954 .	117·8	118·9	119·2	120·7	121·5	120·9	123·3	124·8	124·5	**125·4**		

* Date when Securities revised.

TABLE—SHOWING VALUES OF SECURITIES AND THEIR AGGREGATE VARIATION DURING THE PAST MONTH

[ooo's omitted]

Nominal Amount (Par Value)		Department, containing	Market Values Sept. 15, 1954	Market Values Oct. 15, 1954	Change on the Month	Increase or Decrease Per Cent.
£			£	£	£	
3,566,600	10	British and Indian Funds	3,385,462	3,401,146	15,684	+ 0·5
58,950	9	Corporation (U.K.) Stocks	51,892	51,813	79	— 0·2
83,550	8	Colonial Government Stocks	77,977	78,037	+ 60	+ 0·1
22,300	8	Corporation Stocks (Colonial)	19,873	19,931	+ 58	+ 0·3
21,050	7	Do. do. (Foreign)	18,442	18,638	196	+ 1·1
598,230	26	Foreign Government Stocks	215,655	216,174	519	+ 0·2
254,655	6	British Railway Debenture Stks.	‡301,278	‡301,278	..	..
310,765	6	Do. do. Preference Stks.	‡247,161	‡247,161	..	..
132,000	7	United States Bonds (Gold) †	†141,662	†141,662	..	..
5,048,100	**87**	**Fixed Interest Stocks**	**4,459,402**	**4,475,840**	**16,438**	**+ 0·4**
315,325	13	British Railway Ordinary Stocks	‡72,406	‡72,406	..	..
18,900	5	Indian Railway Stocks	26,614	26,614	..	..
88,350	5	Colonial Railways	121,204	122,368	1,164	+ 0·9
474,000	11	United States Railway Shares	296,751	301,962	+ 5,211	+ 1·8
141,200	20	Foreign Railways	27,760	27,760	..	..
59,685	13	British Bank Shares	210,881	213,765	+ 2,884	+ 1·4
43,000	18	Colonial and Foreign Bank Shs.	72,512	73,584	+ 1,072	+ 1·5
18,121	10	Brewery Stocks	67,907	67,682	— 225	— 0·3
17,750	7	Canals and Docks	22,614	23,344	730	+ 3·2
146,916	38	Commercial and Industrial Shs.	610,810	618,655	+ 7,845	+ 1·3
9,537	8	Electric Lighting and Power	‡21,592	‡21,592	..	..
15,100	9	Financial, Land and Investment Shares	31,474	31,228	— 246	— 0·8
30,680	7	Gas Stocks	‡27,895	‡27,895	..	..
9,343	17	Insurance Shares	247,862	248,989	+ 1,127	+ 0·5
58,294	14	Iron, Coal and Steel Shares	105,938	107,095	+ 1,157	+ 1·1
3,100	5	Nitrate Shares	620	668	48	+ 7·7
42,649	10	Oil Shares	195,053	208,937	+ 13,884	+ 7·1
5,402	9	Rubber Shares	2,277	2,346	+ 69	+ 3·0
17,456	5	Shipping Shares	29,923	30,859	+ 936	+ 3·1
1,890	6	Tea Shares	5,981	5,944	— 37	— 0·6
20,808	9	Telegraphs and Telephones	56,914	57,164	250	+ 0·4
27,716	7	Tramways and Omnibus	44,828	44,793	— 35	— 0·1
29,517	19	South African Mines	95,387	95,126	— 261	— 0·3
28,735	6	Copper Mining Shares	46,110	48,732	+ 2,622	+ 5·7
11,859	7	Miscellaneous Mining Shares	10,296	10,841	+ 545	+ 5·3
1,635,333	**278**	**Variable Dividend Securities**	**2,451,609**	**2,490,349**	**+ 38,740**	**+ 1·6**
6,683,433	**365**	**Grand totals**	**6,911,011**	**6,966,189**	**+ 55,178**	**+ 0.8**

† Designation of gold bonds retained though title apparently unwarranted.

‡ Entered at vesting prices.

BANKERS' MAGAZINE SHARE LIST

BANKS

Last Dividend Actual	Total for Year	Total for Previous Year	NAME	Quotations Sept. 15, 1954	Quotations Oct. 15, 1954
1/6	--	5/	Alexanders Discount Co. Ltd. (£2, with £1 paid)	5¾	6¼
1/2/	2/4/	2/2	Do. do. 6% Cum. Pref. (£2)	47/6	47/6
9	--	2/	Australia and New Zealand Bank (£2, with £1 paid)	36/6	38/6
1 ‡	—	1 9 ‡	Bank of Adelaide Stock	32/6	32/6
5 7	8/	8/	Bank of British West Africa Ltd. (£10, with £4 paid)	8½	8¼
/6	—	£15	Bank of Ireland Stock	—	..
2/	--	6/	Bank of London & S. America Ltd. Stock	5¼xd	5½
30 cents	—	$1·40	Bank of Montreal (*London Register*) ($10)	£15	£15¼
9 ‡	—	34 ‡	Bank of New South Wales (*London Register*) (£20)	31¼	31
40 cents	--	$1·60	Bank of Nova Scotia (*London Register*) ($10)	£18	£18½
1/4	—	2/7	Bank of Scotland (Governor & Co. of) Stock	69/	70/
9d.	--	1/7	Barclays Bank, D.C.O., Ord. Stock	44/6	1/6
1/	—	--	Barclays Bank Ltd., Ord. Stock	47/	49/6
1/1	1/1	--	British Bank of the Middle East	23/6	32
30 cents	--	$1·20	Canadian Bank of Commerce (*London Register*) ($10)	£15½	£15½
1/6	—	2/9	Chartered Bank of India, Australia & China, Stock	44/	43
6d.‡	1/‡	1/‡	Commercial Bank of Australia Ltd. Ordinary (*London Register*) (10)	16/	17/
2‡	4‡	4‡	Commercial Bank of Australia Ltd. 4% Pref. (*London Register*) (£10)	6¼	6¼
5·76d.	---	11·52d.	Commercial Bank of Scotland Ltd., "A" Shares (£1, with 6 paid)	25/6	27
1/		2	Commercial Bank of Scotland Ltd., "B" Shares (£1) ..	41/6	45
2/	—	1	District Bank Ltd., "A" Shares (£5, with £1 paid)	94/	96/
1/	—	2	Do. do. "B" Shares (£1)	45	40/
2/	—	4	Do. do "C" Shares (£1)	97/	97/6
3/	—	8	Eastern Bank Ltd. (£10, with £5 paid)	9	9¼
5	7	7/6	English, Scottish & Australian Bank Ltd. (£5, with £3 paid) ..	5¾	6¼xd
6/3	8/9	7/6	Hambros Bank Ltd. (£10, with £2½ paid)	8½	8½
7½d.	1/2	1/2½	Do. do. "A" Shares (£1)	23/6	23/6
£2		£5	Hongkong & Shanghai Banking Corp. (*London Register*) ($125)	£98	£103
4/	4/	4	Ionian Bank Ltd. (£5)	77/6	77/6
1/4		2/9	Lloyds Bank Ltd., "A" Shares (£5, with £1 paid)	63/6	66/6
6d.		1	Do. do. "B" Stock (£1)	25/	25/6
4/4½		8/9	Martins Bank Ltd. (£20, with £2½ paid)	10½	10½
1/9	—	3/6	Do. do (£1)	89	87/6
	—		Mercantile Bank of India Ltd., "A" Shares (£5, with £2½ pd.	5	5
—	—	—	Do. do. do. "B" Shares (£5, with £2½ pd.)	5	5
—	-	-	Do. do. do. "C" Shares	42/6	40/
4/	--	8/	Midland Bank Ltd. (£12, with £2½ paid)	92	10¼
4/	—	8	Do. do. (£2½)	9¾	10¼
1/7	---	3/2	Do. do (£1)	83/	85
1/	—	2/2	National Bank Ltd. (£5, with £1 paid)	40/	40/
40psts	—	260psts	National Bank of Egypt (Bearer) (£E10)	25½	25½
10½	—	40/	National Bank of India Ltd. (£4, with £2 6 paid)	26	25/6
3/6	5/	4/	National Bank of New Zealand Ltd. (£7½, with £2½ paid) ..	101/6	5¾
1/	—	2/	National Discount Co. Ltd., "A" Stock	42/	42
1/	—	2/	Do. do. "B" Stock	49/	50/
1/2 28	—	2/1·56	National Provincial Bank Ltd., "A" Shares (£5, with £1 paid	58/	59/6
1/8	---	3/4	Do. do. do "B" Shares (£5, with £1 paid.	79	81/6
1/8	---	3/4	Do. do. do. Shares (£1)	86	86
8/	8/	8/	Ottoman Bank (Bearer) (£20, with £10 paid	8½	9
35 cents	—	$1·40	Royal Bank of Canada ($10	£16	£17
1/9	—	3/7½	Royal Bank of Scotland, Stock	4¼	70/6
1/3	2/3	2/3	Standard Bank of South Africa Ltd. (£2, with £1 paid) ..	42/	42/6
1/	---	2/	Union Discount Co. of London Ltd., Stock	55	55
2/	--	3/7½	Westminster Bank Ltd. (£4, with £1 paid)	92	97/
1/3	—	2/6	Do. do. Stock	60/6	60/6

*Bank-Insurance Units	27/4½	28/2¼xd
*Bank-Units	27/0¾	28/1
*Scottish Bank I. & I. T. Units (Scotbits)	36/10½	37/9
*Investment-Trust-Units	37/10½	38/7½

* These prices include stamp duty and commission.
† Free of Income Tax.
‡ Australian currency.
‖ None on offer.
xd.—Ex Dividend.

BANKERS' MAGAZINE SHARE LIST

INSURANCE

Last Dividend Actual	Total for Year	Total for Previous Year	NAME	Quotations Sept. 15, 1954	Quotations Oct. 15, 1954 *
14/	24/	22/	Alliance Assurance Co. Ltd. (£20, with £2½ paid)	35½	35
14/	24	22/	Do. do. New Shares (£1)	37½	37
8/	15/	15/	Atlas Assurance Co. Ltd. (£1, with 10/ paid)	3¾	4¼
1/7½†	—	7/6†	Britannic Assurance Co. Ltd., Ord. Stock	6¼	6½
2½	5	5	Do. do. 5% tax-free, Cum. Pref. Stock	33	33/
2/6	.	4 6	Caledonian Insurance Co. (£1, with 10/ paid)	6¾	7
6 6	11/6	10	Commercial Union Assurance Co. Ltd., Stock	87 6	85/
3 3	5	4 6	Eagle Star Insurance Co. Ltd., Ordinary (10/)	6¾	7¼
3 3	5/	1 6	Do. do. Ordinary (£3, with 10/ paid) ..	5⅞	7
4½d.	9 d.	9 d.	Do. do. 4% Cum. Pref. (£1) . ..	18 6	18 6
4½d.	9 /	9 /.	Do. do 4% 2nd Cum. Pref. (£1) ..	18 6	18 6
1	1 7½	1 7½	Economic Insurance Co. Ltd. (£1, with 5/ paid) . ..	32 6	32 6
1/6	—	4 6	Employers' Liability Assurance Corp. Ltd.	5⅞	6¼xd
2 6†	—	5/†	Equity & Law Life Assurance Soc. (£5, with £1½ paid) ..	14¾	16½
4	6/	6	General Accident, Fire & Life Assurance Corp., Ord. (£1) ..	9½	10
6d.	1/	1	General Accident, Fire & Life Assurance Corp., Cum. 5% Pref. (£1)	22 6	22 6
3 6	6/	5	Guardian Assurance Co. Ltd., Ord. (£1)	9	8¾
2/	- -	4	Do. do. do. Pref. (£5% non-Cum.) (£4) ..	84 6	84 6
4/3	6 9	6 9	Legal & General Assurance Soc. Ltd. (£1, with 5/ paid) ..	15	15
1 6	---	4 6	Licenses & General Insce. Co. Ltd., Ord. (£1, with 10/ paid)	6½	6¾xd
2	—	4	Liverpool & London Globe Insce. Co. Ltd., 4% Perp. Deb. Stk.	91½	95½
3 3	6/6	6	London & Lancashire Ins. Co. Ltd., Stock	8¼	9½
11 †	11 †	10 ½	London & Manchester Assce. Co. Ltd. (£1)	23½	23
13 9	20	18 9	London Assurance, Ord. (£2½)	30	30
4½d.	9 d	9 d	Do. do. 4% Cum. Pref. (£1)	18	18
5/	10	10	North British & Mercantile Insce. Co. Ltd., Ord. (£1¼) ..	15¾	15½
2	4	4	Do. do. do. do. 4% Pref. Stock (Non-Cum.)	90½	92½
11 6	20/	18	Northern Assurance Co. Ltd., Ord. (£10, with £1 paid .	35	34
14 4·209	18 10·207	17 0 7·16	Do. do. Participating Pref. (£7½) ..	29½	30 .
4	...	12 ½	Pearl Assurance Co. Ltd., Ord. (£1)	22¼xd	21
7½d.	1·2½	1 2	Do do. 6% (Tax free), Cum. Pref. (£1) ..	37 6	37 6
8/6	—	17/	Phœnix Assurance Co. Ltd. (£10, with £1 paid	23½	24¼
8/6	---	17	Do. do (£1)	23½	25
2 3	2 3/	2 3	Planet Assurance Co. Ltd., Ord. (£1, with 10/ paid . ..	60	60
1	2	2	Provincial Insurance Co. Ltd., 10% Cum. Pref. (£1 . ..	37 6	40
6d.	1	1	Do do. do. 25% Cum. Pref. (£1)	20 6	21
15 †	---	21 †	Prudential Assurance Co. Ltd., "A" Shares (£1)	44,	41½
2 6†	2 6½	2 †	Do. do. do. "B" shares (£1, with 4/ paid)	6½	6.
3	3/	2 6	Reinsurance Corp. Ltd. (£1, with 12/6 paid)	88 9	86 3
6/	10/	10	Royal Exchange Assurance, Stock	8½	8½
5/9	11	10	Royal Insurance Co. Ltd., Stock	17¾	17¼
4/		7	Scottish Union & National Ins. Co., "A" Shares (£10, with £1 paid)	10¾	11
15/	--	26/3	Scottish Union & National Ins. Co., "B" Shares (£5, with £3½ paid)	38½	38½
2/	—	5/	Sea Insurance Co. Ltd. (£1)	6¼	6½
2/10	5	5/	Sun Insurance Office Ltd. (£1, with 10/ paid)	6½	7½
1/9†	—	3/6†	Sun Life Assurance Society (£1)	10¾	13½
1/	1/	1	Victory Insurance Co. Ltd., Ord. (16/ with 6/ paid)	46 3	46 3
2/	2/	1 10½	World Auxiliary Insce. Corp. Ltd. (£1, with 10/ paid) ..	45	46 3
3/3	- --	8	Yorkshire Insurance Co. Ltd. (£2½, with 10/ paid)	13½	13¼xd
6/6	—	16	Do. do. (£1)	26	25¼xd

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*Insurance-Units	.. ..	29 5½	31/1
*Conbits	.. ..	18 7½	19/3

* These prices include stamp duty and commission.
† Free of Income Tax.
xd.—Ex Dividend.

Bank Reports, Meetings, etc.

THE ROYAL BANK OF SCOTLAND
SPECIAL GENERAL COURT OF PROPRIETORS
September 28, 1954

A Special General Court of Proprietors of the Royal Bank of Scotland was held in Edinburgh on Tuesday, September 28, 1954. His Grace The Duke of Buccleuch and Queensberry, K.T., P.C., G.C.V.O., LL.D., Governor of the Bank, presided.

His Grace said :—

This special meeting has been called for the purpose of considering and, if approved, passing resolutions increasing the capital stock of the Bank and authorising the issue of new capital stock to the proprietors, in the proportion of £2 new stock for each £5 of existing stock held. I am glad to have the privilege of explaining to you, in rather more detail than was given in the circular issued just over three weeks ago, the reasons which have prompted the Court of Directors to make these proposals to you at this time, proposals which I feel sure will have been welcomed by you all and will have your wholehearted support. This view is confirmed by the substantial support which has already been given by proxy by those proprietors who, for business or other reasons, cannot be with us to-day. You will also have observed that our proposals have been favourably commented upon in the financial press, and what is particularly pleasing to me and to the Court of Directors, is that no word of disapproval has, so far, been expressed.

The measures proposed have been in contemplation for some time. In my speech at the Annual Court in March I told you that renewed consideration was being given to the possibility of issuing a consolidated balance sheet of the group, and your Directors, having since reviewed all the relevant considerations, have decided to make the necessary changes to enable a consolidated balance sheet and a consolidated profit and loss account to be placed before you at the beginning of next year. This makes it necessary to alter the date of the annual balance of the Bank and, as a result, the first consolidated accounts will cover a period of almost sixty-four weeks ending on December 31 of this year. Thereafter, accounts will be submitted annually for a full calendar year.

Having made this decision, your Directors considered that this would be a suitable time to carry through the contemplated readjustment in the capital structure of the group and, as there has recently been some easing of the restrictions on the issue of new capital arising from the capitalisation of reserves, they sought and obtained the consent of the Treasury to make an issue of new capital on the basis embodied in the resolutions being submitted to-day. If you give these resolutions your approval, the capital position of the Bank, after the Directors have completed the proposed transfer from inner reserves, will be as follows :—

Issued capital stock	£5,950,000
Published reserve fund	5,050,000
A total of	£11,000,000

The necessary resolutions to give effect to the capital proposals of our subsidiary banks, of which intimation was given in our circular letter of September 3, have already been passed and their capital resources are now as follows :—

Glyn, Mills & Co.	
Amount of stock issued	£1,200,000
Published reserve fund	1,200,000
A total of	£2,400,000
Williams Deacon's Bank, Ltd.	
Paid-up capital in "A" and "B" shares	£2,250,000
Published reserve fund	2,250,000
A total of	£4,500,000

These changes, in addition to strengthening the capital structure of these two banks, also make their contribution towards showing the strength of the group as a whole.

The probable trend of future dividends must be a matter of interest to you all, but I feel sure you would regard it as unwise, or at least imprudent, for me to attempt to forecast the rate of dividends for future years. I can, however, say that, so far as the current year is concerned, it is the present intention of your Directors to declare a second interim dividend at the rate of 7½ per cent. actual, payable at Christmas, and a final dividend, payable in March, at the rate of 3¼ per cent. actual, in respect of the broken period of approximately twelve weeks from the second Saturday in October, which has hitherto been the date of the closing of our Accounts, to December 31, 1954. These two dividends payable on the new capital, together with the first interim dividend paid at Midsummer on the old capital, will make the amount paid for the whole period from October 1953 to December 31, 1954 approximate to an annual rate of 14 per cent. on the new capital and, in the absence of adverse circumstances, your Directors see no reason at present why this rate of dividend should not be maintained.

There is one further matter which I feel I should mention to-day. I have already explained that, on your passing the proposed resolutions, the capital of the Bank will be £5,950,000, and you may have wondered why the opportunity has not been taken to have it rounded off to a figure of £6,000,000. This was indeed the intention of your Directors and, contemporaneously with the application to the Capital Issues Committee for permission to capitalise reserves, they sought permission to offer £50,000 of stock to the staff of the group for subscription in cash and, having regard to the extent to which the interests of the stockholders and the staff are bound together, I am sure you would have considered this proposal reasonable. I regret, however, that Treasury permission for the proposed cash issue was not granted and, in consequence, your Directors had to abandon this part of their scheme.

The resolutions were unanimously approved.

BANK OF ENGLAND—ANALYSIS OF RETURNS

Date		Notes in Circulation	Gold Coin and Bullion	Government Securities in Banking Department	Other Securities in Banking Department	Discounts and Advances	Public Deposits †	Other Deposits: Bankers	Other Deposits: Other Accounts	Total Deposits	Reserve	Proportion of Reserve to Liabilities	* Rate of Discount
1954		£	£	£	£	£	£	£	£	£	£	%	%
June	2	1,624,694,203	3,123,022	301,174,439	13,852,973	15,448,654	15,033,555	280,769,312	70,134,815	365,938,012	53,428,819	14·6	3
,,	9	1,637,150,536	2,614,397	321,414,439	13,795,246	8,838,464	19,792,591	279,262,501	67,439,539	366,494,631	40,463,861	11·0	,,
,,	16	1,640,712,366	2,606,565	326,759,439	13,855,763	9,419,493	15,431,666	287,175,604	66,221,884	368,829,154	36,894,199	10·0	,,
,,	23	1,641,508,951	2,602,785	320,924,439	13,847,245	13,609,713	15,640,509	283,457,867	67,234,525	366,332,901	36,093,834	9·8	,,
,,	30	1,647,428,299	2,613,862	360,924,439	13,668,501	11,744,709	19,265,109	307,742,860	71,342,609	398,350,578	30,185,563	7·5	,,
July	7	1,661,664,096	2,616,042	349,389,439	13,635,658	7,203,965	27,100,502	273,962,832	66,888,961	367,952,295	15,952,545	4·3	,,
,,	14	1,675,996,045	2,626,727	323,356,629	13,895,766	7,783,713	23,628,858	287,694,077	67,120,686	378,443,621	51,630,682	13·6	,,
,,	21	1,701,273,046	2,616,544	337,096,629	13,877,583	8,808,713	21,428,801	277,519,491	68,889,743	367,838,035	26,343,498	7·1	,,
,,	28	1,715,828,944	2,632,656	324,911,629	13,565,247	8,232,000	25,066,224	269,084,102	71,294,557	365,444,883	36,803,812	10·0	,,
Aug.	4	1,716,917,875	2,621,056	329,351,629	13,721,998	5,767,000	25,502,973	273,740,439	66,967,194	366,210,606	35,703,181	9·7	,,
,,	11	1,695,486,058	2,617,695	289,556,629	13,652,265	7,560,000	15,423,072	270,848,763	63,224,566	349,496,401	57,131,637	16·3	,,
,,	18	1,670,527,136	2,660,612	333,491,629	13,770,421	5,015,000	15,275,610	274,214,179	76,514,075	366,004,164	52,133,476	8·7	,,
,,	25	1,653,967,835	2,655,021	296,411,629	13,697,754	6,985,000	16,285,529	267,212,856	63,849,226	347,347,611	48,687,186	14·0	,,
Sept.	1	1,649,903,273	2,640,683	319,521,629	14,550,272	9,475,000	18,277,507	266,677,340	67,861,041	352,815,890	27,737,410	7·8	,,
,,	8	1,647,726,660	2,658,626	318,376,629	14,691,558	7,115,000	19,825,954	265,483,742	66,346,356	351,656,052	29,931,966	8·5	,,
,,	15	1,642,629,269	2,655,839	321,601,629	14,782,710	14,675,074	21,200,143	280,434,828	65,958,245	367,593,216	35,026,570	9·5	,,
,,	22	1,638,026,815	2,656,439	321,826,629	14,753,353	5,720,074	16,023,410	280,312,772	67,073,913	363,410,125	39,631,624	10·9	,,
,,	29	1,635,351,045	2,674,636	322,656,629	14,964,200	6,460,000	22,716,206	276,138,178	68,960,932	367,815,316	42,273,591	11·4	,,
Oct.	6	1,639,440,960	2,665,442	325,476,629	14,275,161	8,428,576	27,417,997	275,992,469	65,490,892	368,901,358	38,224,482	10·3	,,
,,	13	1,637,886,501	2,669,655	331,151,629	11,412,805	1,943,850	23,942,468	280,978,982	64,618,813	369,580,263	39,782,754	10·7	,,
,,	20	1,636,073,402	2,671,303	334,361,629	14,512,312	4,728,556	15,808,663	294,672,118	66,980,132	377,460,913	41,597,961	11·0	,,

* The figures of the Returns are those of the Wednesday on which the Returns are dated but except when otherwise stated the dates of the charge in the Official Rate of Discount apply to the following day Thursday.
† This figure includes H.M. Treasury Special Account.

MONTHLY STATEMENT OF BALANCES OF LONDON CLEARING BANKS

'000's omitted

September, 1954 Date:	Barclays 15th	Coutts and Co. 15th	District 15th	Glyn, Mills & Co. 15th	Lloyds 15th	Martins 15th	Midland 15th	National 21st	National Provincial 15th	Westminster 15th	Williams Deacon's 15th	Aggregates
ASSETS	£	£	£	£	£	£	£	£	£	£	£	£
Coin, Bank Notes and Balances with the Bank of England	106,907	4,151	19,542	5,297	93,9[illegible]8	23,368	111,506	6,877	67,789	69,272	11,666	520,883
Balances with and Cheques in course of collection on other Banks in the U.K. and Republic of Ireland	46,383	1,860	10,457	4,277	41,115	15,077	47,295	1,172	31,506	34,156	5,396	238,694
Items in Transit	—	—	—	—	12,546	—	—	—	—	—	—	12,546
Money at Call and Short Notice	82,572	5,124	17,479	8,201	68,945	26,157	81,255	13,176	50,319	52,550	11,549	417,627
Treasury Bills Discounted	243,105	7,200	37,530	[illegible]	241,490	42,245	277,341	2,000	160,130	147,170	20,000	1,181,456
Other Bills Discounted	26,504	311	663	562	9,969	3,651	29,391	3,025	3,235	2,423	548	80,380
Investments at Book Value	514,355	18,4[illegible]	97,743	20,6[illegible]2	436,624	112,561	489,822	28,292	282,794	310,414	49,850	2,360,461
Advances to Customers and other Accounts	362,393	15,636	61,578	22,339	310,586	92,334	377,619	30,997	260,259	241,289	40,619	1,815,649
Liabilities of Customers for Acceptances, Endorsements, etc.	44,944	2,154	22,360	7,214	96,291	14,195	51,342	1,103	33,048	67,070	11,751	351,472
Bank Premises Account	9,[illegible]1	405	1,537	695	8,579	4,279	8,732	441	6,490	5,764	1,129	47,922
Investments in Affiliated Banks and Subsidiary Companies	13,482	—	—	—	4,346	100	8,866	—	2,304	3,092	—	32,190
	1,449,606	55,245	269,189	72,432	1,324,399	333,967	1,483,469	87,386	897,874	933,205	152,508	7,059,280
Ratio of Cash to Current, Deposit and other Accounts	7·81	8·12	8·27	8·39	7·95	7·55	7·98	8·31	8·04	8·19	8·52	7·97
LIABILITIES												
Capital Paid up	22,915	1,000	2,976	1,060	15,910	4,315	15,159	1,500	9,479	9,320	1,875	85,409
Reserve Fund	12,750	1,000	3,800	1,060	16,500	6,000	15,158	1,435	12,250	10,920	2,000	82,873
Current, Deposit and other Accounts	1,368,997	51,091	240,053	63,098	1,195,789	309,439	1,401,810	82,743	843,097	845,879	136,882	6,538,878*
Acceptances, Endorsements, etc.	44,944	2,154	22,360	7,214	96,291	14,195	51,342	1,103	33,048	67,070	11,751	351,472
Notes in Circulation	—	—	—	—	9	18	—	605	—	16	—	648
	1,449,606	55,245	269,189	72,432	1,324,399	333,967	1,483,469	87,386	897,874	933,205	152,508	7,059,280

* Current Accounts, £4,171,424 Deposit and other Accounts, £2,367,454.

PROVINCIAL CLEARING-HOUSE RETURNS

[000's omitted]

Date	Birmingham	Bradford	Bristol	Hull	Leeds	Leicester	Liverpool	Manchester	Newcastle-on-Tyne	Nottingham	Sheffield	Southampton
1953	£	£	£	£	£	£	£	£	£	£	£	£
September . . .	14,974	15,708	4,721	6,030	9,271	8,103	41,959	34,015	13,330	3,800	7,738	1,341
October . . .	17,316	19,501	5,569	6,589	11,291	8,409	51,035	38,868	14,516	4,683	8,792	1,401
November . . .	21,999	15,855	5,285	5,662	10,381	7,925	44,324	37,371	14,457	4,407	10,074	1,347
December . . .	20,914	18,746	5,293	5,575	10,209	8,576	51,311	39,531	17,713	4,226	9,684	1,374
1954												
January . . .	29,028	19,848	6,816	7,515	14,376	10,613	53,658	42,543	18,255	5,652	10,641	1,743
February . . .	24,142	14,421	5,532	6,190	11,509	8,028	46,753	38,433	17,123	4,332	9,265	1,537
March . . .	21,315	19,183	5,984	6,199	11,300	9,857	54,818	41,860	15,395	4,374	9,478	1,402
April . . .	19,041	18,778	5,313	5,510	10,457	8,180	47,677	38,048	14,045	4,214	9,434	1,367
May . . .	25,556	18,813	5,961	6,577	11,998	8,641	56,518	43,367	16,039	4,673	10,411	1,518
June . . .	19,491	16,917	5,310	5,701	10,872	8,340	48,127	36,066	13,529	4,201	9,460	1,458
July . . .	26,166	18,905	5,609	6,157	12,263	9,382	56,181	40,545	15,970	4,997	10,862	1,601
August . . .	24,651	12,449	4,859	5,251	9,767	6,622	46,705	37,475	12,573	4,347	9,103	1,299
September . . .	18,938	16,605	5,070	5,358	9,955	7,562	49,990	36,841	12,947	4,345	7,891	1,237

YEARLY PROVINCIAL CLEARING-HOUSE RETURNS

[000's omitted]

Date	Birmingham	Bradford	Bristol	Hull	Leeds	Leicester	Liverpool	*Manchester	Newcastle-on-Tyne	†Nottingham	‡Sheffield	Southampton
1942	128,228	106,344	101,364	38,787	57,197	43,611	239,347	621,956	75,702	24,062	43,603	5,891
1943	108,783	197,143	33,390	29,518	57,327	41,392	235,639	415,508	79,768	22,353	47,081	6,637
1944	90,201	94,055	34,139	30,403	59,912	41,451	264,679	170,732	88,596	21,004	47,861	8,310
1945	93,355	99,623	35,653	39,255	64,149	46,034	287,332	186,828	95,648	24,219	47,627	9,969
1946	156,640	114,317	37,332	49,889	76,955	57,819	331,803	225,032	111,429	30,357	56,007	10,832
1947	169,375	115,669	41,898	58,731	86,305	68,139	338,747	299,739	115,902	34,750	70,971	12,871
1948	181,814	143,480	42,129	65,318	103,883	73,284	488,353	379,963	126,786	38,411	80,633	13,301
1949	174,224	163,140	42,670	65,141	115,195	81,320	574,464	401,522	134,305	40,083	80,240	13,280
1950	190,365	219,707	44,917	67,074	119,829	86,665	634,248	439,788	132,766	43,736	83,444	13,745
1951	223,924	240,585	59,420	76,999	129,539	96,431	644,373	507,883	143,542	49,151	95,872	16,408
1952	226,701	175,907	63,248	76,104	124,499	91,371	544,082	417,029	165,857	50,704	100,674	16,855
1953	230,589	210,190	64,051	76,314	129,927	96,141	537,462	436,534	181,809	53,504	106,535	17,043

* Area extended from July 1. 1947. † Area extended from May 5, 1947. ‡ Area extended from June 9, 1947.

LONDON BANKERS' CLEARING-HOUSE RETURNS

Month	Town Clearing	General Clearing	Total for the Month
1952	£	£	£
September	6,799,000,000	2,176,000,000	8,975,000,000
October	7,438,000,000	2,459,000,000	9,897,000,000
November	6,471,000,000	2,338,000,000	8,809,000,000
December	6,797,000,000	2,357,000,000	9,154,000,000
1953			
January	8,745,000,000	2,671,000,000	11,416,000,000
February	6,938,000,000	2,243,000,000	9,181,000,000
March	7,783,000,000	2,436,000,000	10,219,000,000
April	7,579,000,000	2,342,000,000	9,921,000,000
May	6,851,000,000	2,480,000,000	9,330,000,000
June	7,425,000,000	2,323,000,000	9,747,000,000
July	8,709,000,000	2,572,000,000	11,281,000,000
August	6,465,000,000	2,176,000,000	8,641,000,000
September	8,445,000,000	2,401,000,000	10,846,000,000
October	9,459,000,000	2,649,000,000	12,108,000,000
November	7,641,000,000	2,384,000,000	10,026,000,000
December	8,030,000,000	2,627,000,000	10,657,000,000
1954			
January	9,554,000,000	2,734,000,000	12,288,000,000
February	7,437,000,000	2,351,000,000	9,788,000,000
March	9,639,000,000	2,638,000,000	12,277,000,000
April	8,583,000,000	2,483,000,000	11,066,000,000
May	9,675,000,000	2,601,000,000	12,276,000,000
June	10,918,000,000	2,592,000,000	13,510,000,000
July	11,749,000,000	2,606,000,000	14,354,000,000
August	8,062,000,000	2,380,000,000	10,44[illegible],000,000
September	9,466,000,000	2,504,000,000	11,970,000,000

SCOTTISH CIRCULATION RETURNS

AVERAGE CIRCULATION AND COIN HELD DURING THE FOUR WEEKS ENDED SATURDAY, AUGUST 21, 1954

NAME OF BANK	Authorised Circulation	Average Circulation during Four Weeks ended as above			Average Amount of Bank of England Notes and Coin held during Four Weeks ended as above
		£5 and upwards	Under £5	Totals	
	£	£	£	£	£
1 Bank of Scotland	396,852	8,564,629	4,967,060	13,531,689	13,993,748
2 Royal Bank of Scotland . .	216,451	7,069,662	6,058,178	13,127,840	13,829,846
3 British Linen Bank . . .	438,021	6,847,641	4,252,073	11,099,714	11,621,001
4 Commercial Bank of Scotland .	374,880	11,341,836	6,091,104	17,432,940	18,889,663
5 National Bank of Scotland . .	297,024	7,130,557	4,233,336	11,363,893	12,172,225
6 Union Bank of Scotland . .	454,546	5,616,016	3,911,048	9,527,064	9,959,718
7 Clydesdale and North of Scotland Bank	498,773	15,386,021	5,750,722	21,136,743	22,380,778
Totals	**2,676,350**	**61,956,362**	**35,263,521**	**97,219,883**	**102,846,979**

Each of the Bankers named in the above Return, who have in Circulation an amount of notes beyond that authorised in their Certificate, have held an amount of Bank of England Notes and Gold and Coin other than Gold Coin not less than that which they are required to hold during the period to which this Return relates.

November, 1954

SCOTTISH CIRCULATION RETURNS

AVERAGE CIRCULATION AND COIN HELD DURING THE FOUR WEEKS ENDED SATURDAY, SEPTEMBER 18, 1954

NAME OF BANK	Authorised Circulation	Average Circulation during Four Weeks ended as above			Average Amount of Bank of England Notes and Coin held during Four Weeks ended as above
		£5 and upwards	Under £5	Totals	
	£	£	£	£	£
1 Bank of Scotland	396,852	8,413,587	4,875,438	13,289,025	13,726,405
2 Royal Bank of Scotland	216,451	6,952,082	5,976,382	12,928,464	13,626,399
3 British Linen Bank	438,024	6,724,035	4,141,201	10,865,236	11,409,186
4 Commercial Bank of Scotland	374,880	11,032,562	5,984,323	17,016,885	18,210,829
5 National Bank of Scotland	297,024	7,047,856	4,159,519	11,207,375	11,969,046
6 Union Bank of Scotland	454,346	5,481,090	3,874,007	9,355,097	9,735,497
7 Clydesdale and North of Scotland Bank	498,773	15,252,315	5,689,478	20,941,793	22,097,902
Totals	**2,676,350**	**60,903,527**	**34,700,348**	**95,603,875**	**100,775,264**

Each of the Bankers named in the above Return, who have in Circulation an amount of notes beyond that authorised in their Certificate, have held an amount of Bank of England Notes and Gold and Coin other than Gold Coin not less than that which they are required to hold during the period to which this Return relates.

IRISH CIRCULATION RETURNS

NORTHERN IRELAND

AVERAGE CIRCULATION AND COIN HELD DURING THE FOUR WEEKS ENDED SATURDAY, AUGUST 21, 1954

NAME OF BANK	Authorised Circulation	Average Circulation during Four Weeks ended as above			*Average Amount of Bank of England Notes and Coin held during Four Weeks ended as above
		£5 and upwards	Under £5	Totals	
	£	£	£	£	£
1 Bank of Ireland	†756,617	1,596,143	291,387	1,887,530	1,219,628
2 Provincial Bank of Ireland	†282,276	1,255,030	247,018	1,502,048	1,452,853
3 Belfast Banking Company	350,000	1,073,317	71,425	1,144,742	1,671,328
4 Northern Bank	244,000	1,569,062	75,516	1,644,578	1,979,715
5 Ulster Bank	290,000	1,473,779	95,139	1,568,918	1,739,869
6 National Bank	†126,547	581,898	29,401	611,299	504,469
Totals	**2,049,440**	**7,549.229**	**809,886**	**8,359,115**	**8,567,862**

Each of the Bankers named in the above Return, who have in circulation an amount of Notes beyond that authorised by the Bankers (Northern Ireland) Act, 1928, have held an amount of Bank of England Notes and Gold Coin and Coin other than Gold Coin not less than that which they are required by the Treasury to hold during the period to which this return relates.

† These amounts are the latest amounts approved by the Treasury.
* This column includes Bank of England Notes deposited at the Bank of England which, by virtue of Sec. 9 (1) of the Currency and Bank Notes Act, 1928, are to be treated as gold coin held by the Bank.

LEGAL TENDER NOTE FUND AS AT AUGUST 21, 1954

ISSUE ACCOUNT

	£	s.	d.		£	s.	d.
Outstanding as at end of previous week	67,151,749	10	0	Redeemed during week ended August 21, 1954	976,021	0	0
Issued during week ended August 21, 1954	560,020	10	0	Outstanding as at August 21, 1954	66,735,749	0	0
	£67,711,770	**0**	**0**		**£67,711,770**	**0**	**0**

IRISH CIRCULATION RETURNS—(*continued*)

NORTHERN IRELAND

Average Circulation and Coin held during the Four Weeks ended Saturday, September 18, 1954

Name of Bank	Authorised Circulation	Average Circulation during Four Weeks ended as above: £5 and upwards	Under £5	Totals	*Average Amount of Bank of England Notes and Coin held during Four Weeks ended as above
	£	£	£	£	£
1 Bank of Ireland	†713,582	1,616,579	297.841	1.914,420	1,296,701
2 Provincial Bank of Ireland . .	†220,000	1,246,245	270,581	1,516,826	1,523,399
3 Belfast Banking Company . .	350,000	1,064,680	71,063	1,135,743	1,725,785
4 Northern Bank	244,000	1,555.246	73,099	1,628,345	1,932,565
5 Ulster Bank	290,000	1,461,760	94,662	1,556,422	1,681,084
6 National Bank	†134,094	579,192	29,638	608,830	488,419
Totals	**1,951,676**	**7,523,702**	**836,884**	**8,360,586**	**8,647,953**

Each of the Bankers named in the above Return, who have in circulation an amount of Notes beyond that authorised by the Bankers (Northern Ireland) Act, 1928, have held an amount of Bank of England Notes and Gold Coin and Coin other than Gold Coin not less than that which they are required by the Treasury to hold during the period to which this return relates.

† These amounts are the latest amounts approved by the Treasury.
* This column includes Bank of England Notes deposited at the Bank of England which, by virtue of Sec. 9 (1) of the Currency and Bank Notes Act, 1928, are to be treated as gold coin held by the Bank.

Legal Tender Note Fund as at September 18, 1954
Issue Account

	£	s.	d.		£	s.	d.
Outstanding as at end of previous week	67,754,859	0	0	Redeemed during week ended September 18, 1954 . .	855,702	0	0
Issued during week ended September 18, 1954 . .	810,945	0	0	Outstanding as at September 18, 1954	67,710,102	0	0
	£68,565,804	**0**	**0**		**£68,565,804**	**0**	**0**

FOREIGN BANK RETURNS

BANK OF FRANCE

Francs (000,000's omitted)

Date	Gold	Private Discounts and Advances	Advances to State: In Occupation Costs	Treasury Advances	Fixed Advances	Special Advances	Notes	Deposits
Sept. 16	201,282	1,298,013	426,000	195,000	53,849	146,900	2,358,429	113,470
„ 23	201,282	1,277,848	426,000	195,000	53,849	128,800	2,345,024	113,503
„ 30	201,282	1,304,502	426,000	195,000	53,849	154,900	2,443,797	105,289
Oct. 7	201,282	1,332,823	426,000	195,000	53,849	157,600	2,454,526	111,452
1953								
Oct. 8	201,282	1,171,923	426,000	200,000	53,849	196,000	2,234,572	117,977

FOREIGN BANK RETURNS—(*continued*)

U.S. FEDERAL RESERVE BANKS

Dollars (000,000's omitted)

Date	Total Gold Reserves	Total Cash Reserves	Total U.S. Govt. Securities	Total Bills and Advances	Total Reserves
Sept. 15	21,124	487	24,988	24,186	50,77[illegible]
„ 22	21,124	497	23,771	23,941	49,897
„ 29	21,129	487	24,046	24,345	49,799
Oct. 6	—	—	—	—	—
1953					
Oct. 7	20,941	329	25,348	25,632	50,714

Date	F.R. Notes in Circulation	Member Bank Reserve Deposits	Government Deposits	Total Deposits	Excess Member Bank Reserve Deposits	Reserve Ratio %
Sept. 15	25,630	18,642	510	20,067	1,098	46·2
„ 22	25,533	18,379	515	19,806	777	46·6
„ 29	25,554	18,331	769	19,988	691	46·4
Oct. 6	—	—	—	—	—	—
1953						
Oct. 7	26,099	19,303	524	20,681	516	44·8

U.S. FEDERAL RESERVE BANKS AND TREASURY COMBINED

Date	Monetary Gold Stock	Treasury and Bank Currency	Money in Circulation	Treasury Cash and Deposits with F.R. Banks
Sept. 15	21,809	4,967	29,998	1,307
„ 22	21,810	4,968	29,888	1,316
„ 29	21,810	4,971	29,922	1,565
Oct. 6	—	—	—	—
1953				
Oct. 7	22,128	4,872	30.374	1,808

GERMAN FEDERAL REPUBLIC

Combined Return of the Bank Deutscher Länder and the Land Central Banks (in DM million)

Date	Gold	Credit Balances at Foreign Banks, Foreign Cash, Bills and Cheques	Inland Bills of Exchange	Advances and Short-Term Lendings to the Federal Government and other Public Authorities	Bank Notes in Circulation	Bank Deposits	Non-Bank Deposits *
Sept 15	2,328·3	8,221·2	1,399·1	143·1	10,888·7	2,510·4	6,416·0
„ 23	2,412·6	8,166·9	1,538·9	148·1	10,523·1	3,243·5	6,370·4
„ 30	2,412·6	8,198·4	1,647·4	118·2	11,966·4	2,411·8	6,119·4
Oct. 7	2,412·6	8,241·3	1,633·3	111·2	11,494·3	3,062·4	5,888·2
1953							
Oct. 7	1,128·7	6,235·0	2,127·4	203·3	10,831·6	2,889·4	—

* These figures include purchases of Equalisation Claims by Public Authorities.

Life Assurance as Investment Medium

THE combination of protection and investment in the form of endowment assurance continues to increase in public favour. Whether considered on a " non-profit " or " with-profit " basis, as an investment alone it cannot fail to appeal to every class of prespect. To ignore the very valuable protection afforded in the event of death when considering the virtues of a life policy is, of course, entirely contrary to earliest conceptions. It is, however, an established fact that life assurance, with its attractive yield and sound financial backing, competes successfully on grounds of investment alone with Government, municipal and other gilt-edged stocks.

All forms of investment are affected by the present high level of taxation—income tax, surtax and estate duty—and it is not surprising that an investment which places a substantial sum in reserve for a man's estate from payment of the first annual instalment, attracts a generous income tax allowance on the sums invested, and gives a tax free yield of from, say, 3 per cent. to 5 per cent., finds favour alike with the wealthy and the not so wealthy.

Where the money to be invested is from surplus income—whether earned and/or unearned—if a portion (not exceeding one-sixth) of the total income be invested annually in an assurance policy at a premium not exceeding £7 per cent. of the sum assured, then a tax rebate up to 18 per cent. of the premiums will be allowed. A further tax allowance is in effect obtained since the difference between the total cost of the assurance and the policy proceeds at maturity is not charged to either income tax or surtax.

The extent to which these tax concessions weigh in favour of life assurance as a medium for the investment of savings is shown in the following example of a 15-year " non-profit " endowment policy in respect of a person age 45 years next birthday at a premium rate of £6. 3s. per cent.

Total income	£3,000
Amount of investment (one-sixth of income)	£500 per annum
Annual premium of £500 will provide a guaranteed sum assured (payable at end of 15 years or previous death) of .	£8,130
Total net cost over 15 years (tax allowance at 9s. in the £ on 2/5ths of annual premiums)	£6,150
Excess proceeds over outlay	£1,980
or	
An average annual excess of	£132
Yield under the policy (compound interest, free of tax). .	3½ per cent.
Equivalent gross yield (income tax and surtax at, say, 11s 6*d*. in the £)	8¼ per cent.

A capital profit of roughly £2,000, or 32 per cent. on instalment saving over a 15-year period on a so-termed " without profit " contract, is certainly worthy of consideration, while the combination of life assurance introduces a factor as valuable to the family man, as it is unique in the field of investment.

In considering the question of a life policy, the investor is confronted with the necessity of choosing between a " without profit " poiicy and a " with-profit " policy. It has already been shown that the term " without profit " should not be taken literally. Nevertheless, there can be no question that in ordinary circumstances, and taken over the period of the policy, a contract with participation in profits is the more attractive

investment. The following illustration serves to show the remarkable investment yield under a " with-profit " policy in respect of a person age 45 years next birthday at a premium rate of £7. 6*s*. 3*d*. per cent.

Total income	£3,000
Amount of investment (one-sixth of income)	£500 per annum
Annual premium of £500 will provide a 15-year endowment assurance with participation in profits for a sum assured of	£6,837
Estimated proceeds at maturity (sum assured and profits) .	£9,140
Total net cost over 15 years (tax allowance at 9*s*. in the £ on 2/5ths of £7 per cent. of sum assured)	£6,210
Excess proceeds over outlay	£2,930
or	
An average annual excess of	£195
Yield under the policy (compound interest, free of tax) .	4¼ per cent.
Equivalent gross yield (income tax and surtax at 11*s*. 6*d*. in the £)	11 3/16 per cent.

Despite this outstanding result, it has to be observed that the larger sum assured for a given cost granted under " without profit " assurance finds many supporters. For one thing the results are guaranteed, and for another, the contract over much of its early term shows to better advantage than is the case with the smaller sum assured plus profits under a participating contract.

Should it be desired at any time to discontinue payment of premiums, each premium already paid would secure its proportionate part. For instance, under our " non-profit " illustration, if the policy be discontinued after five annual payments have been made (after one-third of the policy term) the assurance would remain in force for one-third of the original sum assured, i.e., £2,710, for which premiums less tax allowance will have amounted to £2,050, and the assurance of the life under which an immediate estate of £8,130 would have been provided in the event of death has been thrown in for nothing. Thus in no case would the policyholder be tied to the policy in order to make it a good investment. The same principle would apply to discontinuance of a " with-profit " assurance, but with the added advantage that all profits accrued to date of discontinuance are added *in full* to the paid-up policy, and, further, the profits declared by the company will continue to be allotted to the paid-up policy on the basis of the reduced sum assured, notwithstanding that no further premiums are payable. For the purpose of true comparison between " non-profit " and " with profit " contracts, our illustrations have been prepared on the same basis with respect to the age of investor and the term of investment, but for younger or older ages, as well as for shorter or longer term contracts, the investment yield will be found attractive.

One important advantage a life policy has over many other forms of investment is its value as a " hidden " reserve against which it is possible to borrow on demand in the event of emergency, and that without ignominy, there being no moral obligation to repay until the policy becomes a claim.

Whilst this article has dealt with the merits of life assurance as an investment medium for surplus income, the needs of life assurance generally fall into two categories—namely, protection and saving. Within these two main classes are a host of exigencies for which life assurance caters. If used in connection with business and financial transactions, such as in the case of partnership agreements, reversionary interests, settlements under marriage contracts, etc., the assurance contract will necessarily vary in its nature with the circumstances of the individual transaction. Where, however,

the need is of a domestic kind, i.e., for family protection in the event of premature death or for provision for personal retirement, it will often be found of advantage to ignore "capital" as such, and to provide "income". In this respect assurance has shown itself particularly enterprising and adaptable, and most life offices are able to offer attractive "tax free" income schemes with economically based premium rates. A man's earning power is a wasting and destructible asset. It is in helping to preserve that earning capacity against the time when it would normally decline or cease that lies the logic of life assurance.

Employers' Liability Assurance Corporation

LORD COURTAULD-THOMSON, in his valedictory statement as chairman of *The Employers' Liability Assurance Corporation*, was able to announce a further substantial premium income increase accompanied by a record trading profit, a capitalisation of reserves, and an issue of fresh capital "to enable the corporation to continue even more actively its policy of world-wide development, particularly in fire business". In line with this stated policy, the corporation has since completed the purchase of *The Halifax Insurance Company of New York*, with an annual involvement of some $1,200,000 premium income, almost all of which accrues to the fire account.

In the office of chairman, the Rt. Hon. Lord Courtauld-Thomson, K.B.E., C.B., has for the past twenty years served *The Employers' Liability* with great distinction, helping to create the high prosperity it enjoys, and in recognition the board expresses a wish that, on relinquishing the chairmanship at December 31 next, he will accept the position of honorary president of the corporation. Viscount Knollys, who succeeds to the chair, has served the corporation as managing director for 21 years, and his exceptional knowledge of the United States, as well as of Canada and other areas of activity overseas, will be an asset of considerable value to the corporation. Mr. C. E. Keysell is to be appointed chief executive officer of the corporation with the title of general manager.

The combined premium income of *The Employers' Liability* group of companies for 1953 was £27,664,156, an increase in the year of £1,935,333, of which £22,471,787 (against £20,933,101 in 1952) applies to accident and general business, £2,590,511 (against £2,249,933) to fire business, £496,906 (against £619,476) to marine business of *The Merchants' Marine*, and £2,104,952 (against £1,92?,313) to life business written through the *Clerical, Medical & General Life*. Profit and loss transfers in respect of the group totalled £1,018,830 (against £422,971), and gross interest income was £876,468 (against £806,461). After charging expenses of £43,386, allocating £320,000 to staff pensions, and providing £918,836 for United Kingdom taxation, the consolidated net profit for the year was £613,076 (against £324,881) and with balance of £858,371 from previous year gave an available total of £1,471,447 (against £1,060,947). The dividend for the year, maintained at 4s. 6d. a share, less tax, cost £190,463, and £250,000 was taken to general reserve, leaving an unappropriated balance forward of £1,030,984.

Individual underwriting results of *The Employers' Liability* show the motor account with premiums of £10,239,014 (more by £954,816 than in 1952) as producing a reasonable

profit—a welcome reversal of the general experience of recent years—and workmen's compensation business with premiums of £5,258,609 (a decrease of £159,837) no more than breaking even on the year's transactions. Other casualty business produced satisfactory results and, taking the accident account as a whole, the underwriting profit was £796,562 compared with £233,171 formerly. In the fire account, an increase of £338,825 to £2,443,350 in premium income reflected the policy of steady expansion in this department. The trading surplus on the fire account was £119,266 (4·9 per cent. of the premiums) against £120,395 (5·7 per cent.) in 1952.

Trading of the corporation's marine subsidiary, *The Merchants' Marine Insurance Company*, was again satisfactory. The net marine premiums totalled £496,906. After providing for all known liabilities and transferring £15,000 (nil a year ago) to profit and loss, the marine fund at the year-end was £698,568, or 140·6 per cent. of the premium income, following 131·5 per cent. and 144·5 per cent. in the two preceding years. The drop of over £100,000 in marine premium income was due mainly to the fall in world commodity prices and to the general reduction in cargo rates. Widespread rate-cutting in this class of business continues, and the chairman gave a warning that unless something is done by the market this hitherto profitable side of marine business is likely to be running at a loss.

New life sums assured written by the *Clerical, Medical and General Assurance Society* in 1953 were £7,302,053, an increase of £583,933 on the 1952 figure, and constituted a record high level of production. Life premium income exceeded £2 million for the first time, and total income exceeded outgo by £935,715 to which extent the life assurance fund was advanced to £22,046,492. The consolidated profit and loss account was credited with £55,816 in respect of life profits.

Total assets (including the figures of *The Merchants' Marine*, but excluding assets of £26,232,163 relating to the *Clerical, Medical and General* for which a separate balance sheet is presented) are shown in the consolidated balance sheet at £43,095,513, and compare with £39,433,361 formerly. Investments total £31,749,306 (against £28,626,749 a year ago) and include United States Government securities of £18,760,307 (against £17,879,755), debentures at £4,645,814 (against £3,516,657), ordinary stocks at £2,968,974 (against £2,601,832), Commonwealth Government securities at £2,288,091 (against £2,147,680) and United Kingdom Government securities at £1,899,295 (against £1,640,903). In addition to departmental funds (ex life) of £10,287,486 (against £9,665,721) and the increased profit and loss balance, there is a general reserve of £4,250,000 (against £3,500,000) which includes share premium account of £920,000. Fire and accident claims outstanding are provided for in the sum of £19,174,470.

The share capital of the corporation has not been changed since 1921, and in that time the premium income has increased from £5,500,000 to almost £25,000,000 per annum. Additional capital was felt to be desirable in order to continue the world-wide development which the organisation is capable of in all other respects. Having regard therefore to the strength of the reserves, the directors considered it appropriate to pay up the uncalled capital of 15s. per share on the existing shares by capitalising £1,154,317 from general reserve, and to raise fresh capital with a view to bringing the authorised share capital to £3 million and the issued share capital to £2 million, against the then figure of £384,772.

National Mutual Life Association of Australasia

BEFORE 1869 if the premiums on a life policy were not paid the policy lapsed. But with the founding in that year of the *National Mutual Life Association of Australasia* a new era in life assurance was inaugurated. Always to the fore in bringing to the practice of life assurance every possible improvement likely to be beneficial to its members, the association is deservedly proud of being the first office in the world to introduce the non-forfeiture principle by applying the surrender value of life policies to paying premiums so as to prevent a policy lapsing until the surrender value became exhausted. To-day an automatic non-forfeiture provision is incorporated in practically every life policy issued in English-speaking countries.

The association, whose head office is in Melbourne, operates throughout Australasia, Great Britain, Northern Ireland and Eire, South Africa, and Ceylon. New business written for the year ended September 30, 1953 amounted to £42,443,930 sums assured, compared with £41,826,836 and £40,635,083 in the two preceding twelve months. The comparable new business figure for 1949 was £25,520,000. These figures relate to ordinary department business only as the association does not issue industrial policies.

The United Kingdom organisation is a self-contained unit and operates from 5, Cheapside, London, E.C.2, under the managership of Mr. E. E. C. Barnsley. Some conception of the importance of the United Kingdom branch is obtained from the new business written, which for the twelve months under review consisted of 5,086 policies for sums assured of £3,795,604.

Taking the association's business as a whole, there were issued in the year 61,569 new policies for sums assured of £42,443,930 at single and annual premiums of £1,532,507. The total net premium income amounted to £10,480,500, against £9,858,735 formerly. Annuity considerations brought in £653,444 (against £605,726) and interest income was higher by £394,406 at £3,529,049. The average rate of interest earned on the assurance fund was £4. 6*s*. 9*d*. per cent. gross, following £4. 2*s*. 8*d*. per cent. and £4. 1*s*. 4*d*. per cent. in the two preceding years, the corresponding net rate being £4. 0*s*. 3*d*. per cent. against £3. 14*s*. 6*d*. per cent. and £3. 14*s*. 1*d*. per cent.

Payments to policyholders or their representatives required £5,788,347, of which £2,031,533 was in respect of claims by death. As a result of the year's transactions the assurance fund increased by £6,768,163 to £93,095,044.

A strong actuarial reserve position is reflected in a decision to anticipate the normal triennial investigation as at September 30, 1955, and to distribute a portion of the year's surplus in the usual form of reversionary additions to the amounts assured. The distribution is upon a scale substantially higher than the scale which the association has maintained unaltered since 1947.

Total assets are shown in the balance sheet at £100,470,753, having passed the £100 million mark for the first time with an increase of £5,794,531. In addition to the assurance fund there is an investment, contingencies and exchange reserve of £3,702,881, an income tax reserve of £150,000 and a general fund of £100,000. Government securities are included in the balance sheet at £30,516,704, loans on mortgage at £32,175,007, and municipal debentures and loans to public bodies at £16,790,079.

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The association's results for eighty-four years—1869 to 1953—show a total of £118,184,397 paid to policyholders, and assurances now in force amounting to £329,343,358.

Insurance Notes

LIFE ASSURANCE STATISTICS

FIGURES published recently by the Life Offices' Association and the Associated Scottish Life Offices, show the total new business of member companies at £817 million sums assured in 1953, an increase of £48 million on the previous year. These figures are stated to account for at least 99 per cent. of the total ordinary life business transacted in this country.

Within these totals, new business under group life and group endowment assurance at £164 million compared with £159 million in the previous year. The increases noted in recent years in new sums assured under group assurances for pension purposes showed a tendency to slow up in 1953, while new sums assured under ordinary policies (excluding group business) showed a larger increase compared with 1952. These facts are illustrated by the following figures taken from the summary of statistics.

Ordinary Life Assurance (excluding Group Business)

Year	No. of new policies	New sums assured
1951	698,000	£593,000,000
1952	691,000	£610,000,000
1953	695,000	£653,000,000

Group Life and Group Endowment Assurance

Year	New sums assured
1951	£129,000,000
1952	£159,000,000
1953	£164,000,000

The average new sum assured per policy in respect of individual life assurances (i.e. excluding group business) continued to rise. In 1951 it was £850; in 1952, £880 and in 1953, £940. Total sums assured and bonuses in force at the end of 1953, again excluding group business, totalled £5,147 million as compared with £4,801 million the year before. As a measure of overseas business, roughly one-sixth of new sums assured under individual policies were written abroad by the United Kingdom offices. The increasing success of these offices in overseas fields is shown by the following table of sums assured (and bonuses) written abroad and in force under individual policies at the end of each of the past five years—

Year	Sums assured (and bonuses)
1949	£408,000,000
1950	£458,000,000
1951	£524,000,000
1952	£600,000,000
1953	£680,000,000

By the end of last year about 1,900,000 employees in the United Kingdom were covered either for life assurance or for pension benefits—the great majority of them for both—under schemes established by employers for the benefit of their staffs. The total sums assured in force under these schemes amounted to over £1,000 million, while future pension rights exceeded £235 million a year.

The following table gives aggregate figures of member offices for income and expenditure on ordinary life and annuity funds.

Year	Total ordinary life and annuity funds at end of year	Total income from premiums and investments	Total payments to or from policyholders	Total outgoing	Increase in funds over year
	£m.	£m.	£m.	£m.	£m.
1951 . .	1,895·0	330·6	163·8	213·8	116·0
1952 . .	2,030·0	360·0	172·5	226·2	133·0
1953 . .	2,204·0	393·2	162·2	220·8	172·0

NEW PRESIDENT C.I.I.

MR. GEORGE WILFRED BRIDGE, F.C.I.I., general manager of the *Legal and General Assurance Society* and managing director of the *Gresham Life and Fire and Accident Societies*, has been elected president of *The Chartered Insurance Institute* for 1954–55. Mr. Bridge commenced service with the *Legal and General* over 35 years ago. At that time the society was a thriving life office, writing over £3 million new sums assured and just commencing the transaction of fire and accident business. Since then the society has made tremendous progress, and in 1953 its new life business exceeded £81 million, while the fire, accident and marine premium income was around £4 million, and total assets over £209 million.

The new deputy-president of *The Chartered Insurance Institute*, Mr. H. T. Silversides, has been joint general manager of the *Yorkshire Insurance Company* since 1950. Mr. Silversides is also deputy-chairman of the *Trade Indemnity Company*, deputy-chairman of the *Fire Offices' Committee Fire Protection Association*, and a member of the board of a number of companies, including the *Aviation and General Insurance*.

LICENSES AND GENERAL CAPITAL REORGANISATION

IN the past few months a number of insurance companies have put forward plans for the reorganisation and simplification of their capital and for the raising of further finance. The latest example is the *Licenses and General Insurance Company*, with a rights offer, at a price which at present has to be announced, after a scrip issue has first paid up uncalled capital. At present the paid-up capital is £102,662, representing £99,022 in 10*s*. paid on 198,044 ordinary shares of £1 and £3,640 in fully-paid preference shares. Under the proposed scheme what is in effect a scrip issue of one-for-one will make the ordinary shares fully paid, while a share-for-share scrip issue, but in ordinary shares, will likewise double the capital held by preference shareholders. Except that they have a prior claim to an 8 per cent. payment, the dividend rights of the preference shareholders are like those for the ordinary, and as for 30 years dividends have been substantially in excess of 8 per cent.—last year the rate was five points up at 45 per cent.—the distinction is hardly worth preserving. To facilitate conversion to a single class, preference shareholders are offered a further 10 per cent. scrip issue involving £364 and making their total prospective capital, in ordinary shares, £7,644. As a result of these several transactions the company's issued capital will be £205,688 in fully-paid £1 ordinary shares, each of which it is proposed to divide into two fully-paid shares of 10s.

A meeting to approve the reorganisation will be convened for the latter part of November and shareholders registered at that date will be given the right to subscribe in cash for 108,624 new shares on the basis of one for every four held. To bring the issued capital up to an even £260,000 shareholders will also be allowed to subscribe for a further 5,780 shares. Treasury consent to the cash offer will be required. The authorised capital is £1,000,000.

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INSURANCE DIVIDENDS

The trend of insurance dividends continues upwards. The *Royal Insurance* and its subsidiary, the *Liverpool and London and Globe* are raising their interim payments for 1954 to the higher level established by last year's final payments. In the case of the *Royal* this is 5*s*. 9*d*. per £1 stock unit. The *Globe* is paying an interim of 21*s*. 6*d*. a share (£2 paid), or the same as last year's final, but 2*s*. more than the 1953 interim. The *Royal* holds all the issued capital of the *Globe*.

The *Royal Exchange* is fulfilling its promise to pay an interim of 10 per cent. upon a trebled capital. The increase in capital took the form of a capitalisation issue and a rights issue for cash. The interim a year ago was 20 per cent. and the final 30 per cent. on the old amount.

The interim of 1*s*. 6*d*. per £1 share, 10*s*. paid, declared by the *Atlas Assurance* is equal to 15 per cent. It is rather better value than the corresponding dividend of 7*s*. per share of £5 with £1. 5*s*. paid, or 28 per cent. declared a year ago because a scrip issue of 100 per cent. applied to paying up calls, accompanied the share subdivision carried through in the spring.

COMMISSION RATE REVISIONS

All offices which are members of the Life Offices' Association and its Scottish counterpart have agreed to observe new maximum commission terms for the introduction of pension scheme business and its subsequent annual renewal. The object of the new terms is to achieve a balance between an endowment assurance pension plan and a group life and deferred annuity arrangement. In effect, maximum rates of commission for endowment schemes are fixed at a lower level than have been offered by most offices in recent years, and an increased rate of commission is now payable under group life and pension business.

THE PURPOSE OF INSURANCE

Discussing the purpose of insurance in his presidential address before the Insurance Institute of London, Mr. R. S. Thorp, deputy general manager of the *Prudential Assurance*, pointed out that it dealt with intangibles and produced nothing that could be packaged or displayed. What insurance did create, however, was a commodity without which an ordered way of life to-day could scarcely survive, let alone prosper, namely, " Confidence ". Denying the popular notion that insurance and " safety first " were synonymous terms, Mr. Thorp emphasised that insurance was, in fact, a spur to enterprise—a view he supported with a familiar quotation from the Statute of 1601—" Insurance is a means whereby all merchants, especially the younger sort, are allured to adventure more willingly and more freely ".

Few revolutions have left a deeper impress upon human life than these, in the realms of scientific research and technology, that have brought new instruments and methods to the task of exploiting the world's natural resources. But, with every advance in technique, the vital step between experiment and application, between the idea and its fulfilment, brings with it heavy and often original hazards. There are going forward in the world to-day some immense projects, of which the Owen Falls Dam whose end ultimately will be the electrification of vast areas of the African continent is but one. In the mobilising of natural resources on this scale, said Mr. Thorp, insurance plays an

indispensable role, for such is the incalculable and crippling cost of misadventure, that this peril might stand forever between the concept of an enterprise and its realisation but for the safeguard—the stimulus of insurance.

DISCRIMINATION IN MARINE INSURANCE

At the 1954 Congress of the International Union of Marine Insurance, held at Scheveningen, Holland, Mr. J. T. Bryne (United States) pointed out that many governments, whilst not willing to act alone in making protests against restrictive practices, would be ready to act in conjunction with others, and it was suggested that if this could be done positive results might well be achieved as governments introducing discriminatory laws were more likely to heed such protests when they were made by a group of friendly nations. As free convertibility of exchange might well be possible within the near future such a step would test the sincerity of those governments who had used the pretext of shortage of foreign exchange to introduce discriminatory legislation in transport insurance matters. Mr. Bryne cited the cases of Mexico and Pakistan which had brought in such laws in the past year.

Mr. Harold H. Mummery, the marine underwriter of *The London Assurance*, speaking at the Congress on the subject of hull insurance, gave it as his opinion that the difficulties of underwriters in this market are not likely to get less in the immediate future. Owners are still faced with falling freights and the costs of materials and labour show no real tendency to decrease. In the United Kingdom, Mr. Mummery calculates the increase in the cost of repairs which underwriters may expect since December 31, 1953, will be something between 5 per cent. and 7 per cent. In view of the problem of delayed claims. Mr. Mummery said it was too early to determine how recent years' underwriting accounts will develop. But so long as there were these delays in the presentation of hull claims it seemed to him that no constructive suggestions could be made to improve the lot of underwriters.

LIFE ASSURANCE AT THE LABOUR PARTY CONFERENCE

A DEMAND for the executive of the Labour Party to consider "the desirability of the nationalisation of all life assurance" was deleted during discussions before the standing orders committee. A resolution to consider the possibility of a national pension scheme as a development of national insurance—" particularly in view of the recommendations in the Millard Tucker Report which seem to favour unduly the higher paid workers "—was too far down on the agenda for discussion. This indicates that the National Executive will not be asked to revise their views on insurance as set out in " Challenge to Britain ". The insurance industry was not mentioned elsewhere in the agenda.

Insurance Appointments, etc.

NORWICH UNION FIRE INSURANCE SOCIETY.—Mr. F. E. Balfour, S.S.C., N.P., to be a local director at Edinburgh. Mr. L. S. Marler, T.D., to be a local director at City Office.

LONDON AND LANCASHIRE INSURANCE COMPANY.—Mr. J. C. Walker to be a local director at Edinburgh.

November, 1954

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The Liberal Tradition in Economics

By G. L. S. Shackle

Brunner Professor of Economic Science, University of Liverpool.

THOSE who have had the privilege of knowing, in however slight a degree, Professor Robbins himself, Lord Keynes, Lord Beveridge and some of the other principal *personae* in the great theoretical-political economic drama of the last twenty-five years will see in Professor Robbins's latest work* a most fascinating personal document. For with all its wealth of argument, fact and reflection, much the most interesting thing that this book shows us is how a scholar brought, at necessity, his apparatus of abstract thought to bear upon the harshest practical problems, how a generous and disinterested mind responded to this experience by enlarging its outlook and accepting new ideas and possibilities without abandoning its long-examined basic principles, and how an inestimable service has been rendered not only to truth but also to the guidance of our rulers by the determination of at least one economist of the first rank to regain and retain his freedom.

The economist, as a whole man, sees freedom as two different things: first as something wanted, above all other things, for its own sake, since without it life would not be worth living; and secondly, as the necessary condition of his being able to get the most out of his limited resources. No subtle argument is needed to prove this latter proposition. If my limited means enable me to produce, or to obtain by exchange, any one of a range of different things A, B, C, ---, G, and of all these I prefer B but someone compels me to have C instead, I am suffering a loss of satisfaction. It was this conception which, when the blast of his trumpet was heard in 1936, Lord Keynes seemed to some to be challenging. In this book Professor Robbins speaks of Keynes's " untimely death in the service of the highest kind of economic statemanship," and of his " giving up his life in an effort to raise the dollars which he deemed necessary." By these generous tributes Professor Robbins seems to recognise that Keynes's aims and basic theoretical insights were not incompatible with his own.

After a cautious and modest appraisal, in his first lecture, of the modern economist's usefulness to his countrymen, in which he warned his student audience not to think that all the problems of life and politics, and their solutions, are economic, Professor Robbins goes on, in his second lecture, to examine the meanings of " full employment "

* *The Economist in the Twentieth Century and Other Lectures in Political Economy*, by LIONEL ROBBINS. London: Macmillan and Co. Ltd., 1954, pp. xi + 225. 16*s*.

as an objective of policy and in particular the definition of it given by Lord Beveridge. To one brought up, like the present reviewer, in a liberal atmosphere and tradition, one of the most disturbing experiences of the years just after the war was to see, from the viewpoint of a humble Government economist, the willingness even in official circles to consider seriously the suggestion that the best way of ensuring full employment might be to " stoke up activity by high-pressure expenditure which it then proceeds to ' contain ' by direct price-fixing." Professor Robbins has dealt faithfully with this order of ideas : " If the world wins through once more to an outlook of reason and sanity, I think it will be a matter of amazement that men who professed to have the interests of the good society at heart, should have thought that its coming could be hastened by the resort to measures so destructive to all that is most essential to it."

It is when he comes in his fourth lecture to discuss the control of inflation that Professor Robbins attacks the most central of his problems with the most controversial of his arguments. First his prognosis : " Some small upward movement of prices as time goes on may be supportable ; . . . But a trend which is capable of halving the value of savings within a decade is not of this order ; sooner or later it must come to some disorderly conclusion." One may feel the utmost instinctive sympathy with this view without accepting it as a self-evident truth. A doubling of prices every ten years is an annual increase of rather less than 8 per cent. Now if taxation were substantially cut, there is little doubt that industry could afford in its present prosperous condition (which is evidently bound up with the inflationary trend) to pay a great deal more for its capital than the present 4, 5, or 7 per cent. on debentures and preference shares. Suppose it were able to pay 10 or 11 per cent. ? This, after allowing for the halving of the value of money every ten years, would still leave lenders with the 2 or 3 per cent. per annum which is all that buyers of gilt-edged securities have sometimes been able to get in non-inflationary times. Is not a " moving equilibrium " on these lines theoretically conceivable ? Might it not even have one positive advantage, in compelling the constant re-lending of a large proportion annually of the lender's capital, which proportion could thus be transferred to the most promising and profitable industry, whichever that might currently be, instead of being left with the original borrower ? No doubt the ordinary lender will one day wake up to the fact that he is receiving a negative rate of interest, in real terms, on the savings which he keeps in fixed interest securities at 3 or 4 per cent. But if he then proceeds to spend all his spare income on luxurious extravagance until he is offered 10 per cent. or 12 per cent., does it follow that he will not ultimately, if the inflation goes on, actually be offered that ?

Professor Robbins says that he is not here concerned with the deeper or sociological causes of inflation. He does not touch at all on the implications of universal suffrage enjoyed by an electorate which has become conscious of " public " economic matters (as distinct from those of the individual family's purse and budget), which has enjoyed very high employment for half a generation, which is kept assiduously supplied by its press and its leaders with some of the more politically interesting results of the nation's greatly improved statistical services, and whose votes must be sought by both parties by means of the same sort of promises and not very different policies. In an economic system where this situation prevails one might be excused for supposing that a wage-price spiral is inevitable, though for my own part I think such a conclusion does the English people less than justice. However, Professor Robbins has defined the scope

of his lecture so as to exclude such questions; he is here interested only in the mechanism of inflation in a narrower sense.

As an explanation of the behaviour of the general level of prices, and as the basis of a policy for controlling it, Professor Robbins finds the Quantity Theory not merely adequate but even superior to what he conceives to be the Keynesian alternative. For Professor Robbins's general philosophical and political outlook I feel the closest sympathy, but I feel bound to say, with all respect, that I do not think he has properly understood Keynes's theory of the price level. "When we are forming a judgment as to the probable effectiveness of monetary policy in controlling inflationary tendencies," Professor Robbins says, "all this talk about rates functioning, so to speak, *in vacuo* is entirely beside the point. The important thing is the control of the credit base. . . . It is much more realistic to think of the size of the credit base coming first and movements of rates of discount and the rest being consequential adjustments." Whatever else does he suppose Keynes had in mind? And what are interest-rates which function "*in vacuo*"? Keynes regarded the system of interest-rates as being essentially governed, in a given expectational setting, by the quantity of money which itself is of course closely constrained by the size of the credit base; and he thought of the rates of interest as one of the determining factors (again, in a given expectational setting) of the pace of investment and therefore of output as a whole. When output is increased we shall, in the short period, move up a positively inclined supply-curve of "general output," and the general price level will therefore rise. In this conception how can interest-rates be said to be "*in vacuo*"? The mechanism by which they are themselves determined is explicitly described by Keynes, and the mechanism by which they in turn determine activity, and by which activity determines prices, is also set forth.

The question we must ask Professor Robbins is indicated, I think, by his remark that, in Keynes's system, "direct influence of money on prices and activity, if not actually denied, is slurred." Now what are we to understand by "direct"? I cannot for a moment suppose Professor Robbins to be claiming that the quantity of money can influence prices without the intervention, as a link in the causal chain, of human preferences and decisions. Perhaps he would say "I admit human *habits* as a connecting link, and these work through a tendency towards constancy in the velocity of circulation of money." Indeed he does say on page 76: "The fundamental habits on which velocity depends may change much in the long period. But in the short period, although anticipations of weak monetary policy and further inflation may cause these habits to give way, experience shows that it is only necessary to exercise a firm control of the supply of money for movements of this sort to cease." This is a cautious statement, and is no doubt compatible with the fact that in March, 1920, according to calculations made by Professor Phelps Brown and myself,* the annual velocity of circulation of that part of the cheque-paid money stream which mediates "real" (as opposed to Stock Exchange) transactions was 14·64, while in July, 1921, it had fallen to 8·98. It is indeed obvious that rates of interest are far from being the only channel, perhaps they are not even the most important one, through which the ready availability or the scarcity of

* London and Cambridge Economic Service Special Memorandum No. 46, May, 1938, *Statistics of monetary circulation in England and Wales*, 1919–37, by E. H. Phelps Brown and G. L. S. Shackle.

funds influences people's decisions to invest or to consume; but the Quantity Theory says nothing of such other channels or indeed of any psychic mechanism at all, except mere habit.

I have left myself no space to do more than refer briefly to the rest of the book. Lecture 5 is an admirably clear, brief and detached exposition and critical examination of the problems of international monetary relations and their possible solutions. Next follow chapters on commercial policy and on international financial reconstruction. The final lecture, first printed in July, 1950, and called *Towards the Atlantic Community*, will give the reader a profound respect for Professor Robbins's understanding of political reality.

The book abounds in phrases and asides which give the reader pause: "In a world from which the great men have gone—or almost gone—we do indeed need leadership." Can it be true that England has ceased to produce rare spirits, men of genius in understanding or in action and of noble aspiration? "We do not need to assume" says Professor Robbins, "that all politicians are ignoble—it is indeed much more sensible to assume that a substantial number try to do their duty." Yet "Truth and tolerance have declined and the decent order of the world is broken."

The manner and the matter of this book are restrained and suggest even a certain quietism, yet it is far from pessimistic.

Liverpool University,
October 20, 1954.

G. L. S. SHACKLE

Correspondence

CONVERTIBILITY PROBLEMS

To the Editor of the Bankers'. Magazine

Sir,—I did not intend to impugn credit policy generally, but only in relation to a certain problem in certain circumstances. I do not deny that it may be a valuable element in a policy for steering the domestic economy between the Scylla of inflation and the Charybdis of depression and unemployment. I hope and believe that it will continue to play its part in this policy.

Credit policy can also be used to affect the external balance of payments, a tight policy tending to improve it, and conversely. Thus there should be one specific policy which secures that external payments are in approximate balance. But the trouble is that the policy required to secure this end may be more deflationist than that required to steer between the domestic Scylla and Charybdis, as mentioned above. I think that Mr. Hawtrey's letter* implies that the two criteria (domestic stability and external balance) require the same credit policy; I hold, on the contrary, that in theory, and naturally therefore in practice also, this is not so in many cases. I fear that this is not the place to argue that point.

* *The Bankers' Magazine*, November, 1954, page 393.

My contention is that, were the two criteria in conflict, priority ought to be, and most indubitably will be, given to the criterion of internal stability. This has been the consistent policy of the United States—not always successful—since 1922. There is no chance that Britain will go in for deflation leading to serious unemployment (" the old medicine ") in order to improve the external balance of payments.

I am ready to admit that the present conjuncture is abnormally favourable for convertibility, although not for the reasons that Mr. Hawtrey gives. He seems to connect by implication the improvement in our terms of trade with the American recession, arguing that American revival will worsen them. But the improvement in the terms of trade occurred before the American recession began, and these terms have been approximately the same this summer as they were last summer. Furthermore, as the substantial fall in the prices of our imports had already occurred more than eighteen months ago, I am doubtful if British manufactured export quotations are still much influenced by the higher cost of materials obtaining in that much earlier period.

In admitting that the present conjuncture is abnormally favourable to convertibility I am thinking mainly of the gold and dollar situation, whereas Mr. Hawtrey's arguments relate to the " overall balance." The reason why the conjuncture is favourable is the great volume of American overseas expenditure on defence account (I do not refer to " aid "). This touches the direct U.K. dollar balance, through American expenditures on stations in England, etc., and on off-shore procurements ; it has a larger effect on the world wide dollar balance, and this point is of vital importance in relation to sterling convertibility, because, in the period in which the world has a relatively abundant supply of dollars, there is likely to be less tendency for third party countries to restrict imports from Britain in order to obtain dollars via a convertible sterling.

We have to recognise that this is a transitory condition, although it may last for some years. Mr. Hawtrey argues that it would be unwise to take advantage of this transitory condition and presumably implies that we should wait to see how matters stand when it is over. But this is to ignore the point, the arguments for which I supplied in my original article, that convertibility would itself have a tendency to improve our gold and dollar balance. The case I argued was that convertibility might well subject us to a considerable strain in the earlier period, but would strengthen our gold and dollar balance in the longer period. If this is correct, it is surely a reason for taking advantage of a transitory period (one, however, likely to last for some years) in which the early strains will be considerably reduced by the relative abundance of dollars in the world, and thus putting ourselves in a position to gain the long run benefits. If we wait for a period of years, we may have failed to put ourselves on the way to gaining those long run benefits and have missed the happy opportunity presented by the coming period in which the strains of restoring convertibility would be substantially eased. I do not feel that Mr. Hawtrey has met this argument.

One further point. Mr. Hawtrey says that " Mr. Harrod apparently *has no other remedy* for an adverse balance " (viz. other than import restriction). Why does he say this ? All policy designed to increase efficiency and competitiveness is a remedy for an adverse balance. One does not have to recite all this in every article. I have been pleading strongly recently for an " optional " system of depreciation allowances as

something that the Government could do at once. I believe that that would have a strongly favourable effect on our external balance. I hope that we shall adopt all available measures on various lines, whether we have convertibility or not. But I also hold that the restoration of non-resident convertibility would itself be a policy measure likely to improve our external balance.

I am, etc.

Christ Church ROY HARROD.
Oxford.

AN E.C.G.D. FOR U.S.A. ?

To the Editor of the Bankers' Magazine

Sir,—The comments in your September issue (pages 212 and 213) on my article in the *Burroughs Clearing House* dealing with the financing of long-term exports amused me. Was the writer irritated because we here in the States do not like to be forced out of overseas markets by foreign government credit competition and are trying to do something about it ? His remarks are a compilation of meaningless phrases which stand out like a muddy spot in the erudite material of your magazine. I read his comments carefully but don't know what he is trying to say.

You may be interested to know that the policy which many American industrialists and bankers have been advocating is becoming a reality. The Export-Import Bank of Washington is ready to assist American exporters of capital goods by extending credit lines up to five years. The bank will insure (guarantee) 60 per cent. of shipment without recourse to the American manufacturer, provided there is a down payment of 20 per cent. by the foreign buyer. This arrangement will enable American commercial banks to discount the notes, 60 per cent. with recourse to the Export-Import Bank and 20 per cent. with recourse to the seller.

Perhaps your readers should have a full and unbiased review of the subject. They are no doubt interested in the current policies of the Federal Reserve Board, Export-Import Bank and of our commercial banks.

Very truly yours,

American National Bank and Trust Company of Chicago, A. M. STRONG,
Chicago 90, *Illinois, U.S.A.* *Vice-President.*
October 19, 1954.

[Mr. Strong seems to have misunderstood our comments, and still does not appear to grasp the distinction between *insurance* and *credit-granting*. Both services can be rendered by one and the same institution, but they are different in kind and call for separate accounting. When we wrote the Eximbank had refused to grant long-term credit. On October 28, Mr. Rowntree, Exim's economist, is reported as describing projected new facilities by Exim that would, in fact, mean the willingness to undertake both insuring and lending. We asked, and repeat the question, should a bank grant lengthy credit to a customer, and grant it without recourse—and what range of risks is covered ? For if non-payment occurs from a cause that is not insured, is there still to be " no recourse " to the exporter ?—Editor.]

Notes and Comments

G.A.T.T. CONFERENCE OPENS

THE Ninth Session of the Contracting Parties to the General Agreement on Tariffs and Trade opened at Geneva on October 28 with an ordinary business meeting. At this meeting G.A.T.T. again demonstrated its value in the settlement of trade disputes for it was found possible to deal satisfactorily with three complaints, two against Belgium and one against France. On November 8 the conference turned its attention to its main task, namely a review of the whole of the General Agreement. The review began with statements of their attitude by the main trading countries which belong to G.A.T.T. and received a heartening message from President Eisenhower. The President stated that he intended to press Congress when it convened on January 5 for early action on the lines of the recommendations of the Randall Commission. His message has been supported by the prospective chairman of the House Committee of Ways and Means which has hitherto held up tariff legislation. The general statements by the various delegations also promised well for the future of G.A.T.T. for they showed a noticeable measure of agreement on the main objectives of the review and produced a series of detailed proposals for discussion. The main points of agreement disclosed in the statements were as follows. Firstly, an agreement that G.A.T.T. should become a permanent arrangement and, secondly, that its provisions should be tightened. Only the French and the Australian delegations appear to have had hesitations on this second point, the French wanting to retain the present Agreement without overmuch tightening and the Australians wanting to re-negotiate the " no new preference " rule. Thirdly, there was general agreement on the need to reformulate the clauses dealing with dumping and export subsidies in order to limit present practices which manage to avoid conflict with the existing clauses. Fourthly, it was generally felt that the use of quotas and discrimination should be more severely limited and a time limit placed on the unilateral imposition of discriminatory controls on trade. Here again the French and the Australian delegations were in a minority, the French wanting quotas to be abolished within O.E.E.C. and the Australians requesting special facilities for under-developed and developing economies.

The main points of disagreement so far appear to be those concerning the entry of Japan into full membership and the treatment of agricultural surpluses. The British Commonwealth countries abstained from the resolution that tariff negotiations should be started with Japan in February. If not less than two-thirds of the 34 members agree to the results of the tariff negotiations and are prepared to vote for her accession, Japan will become a full member. However, the United Kingdom has reserved its position and is expected to insist on bilateral arrangements with Japan restricting her most-favoured-nation rights. It has been pointed out that in negotiating a payments agreement with Japan and in increasing the imports of Japan into the sterling area the United Kingdom has done more for the revival of Japanese exports than any country, not excluding the United States which has bought less of late from Japan. It can be argued, of course, on the other side that a club such as G.A.T.T. should not have different sorts of members, those with full rights and those with only partial rights. In so far as the main impact of full membership by Japan would fall on British Commonwealth countries some compromise might be inevitable. This would possibly clash least with the club concept if it were extended for a traditional period only.

At the present time American action under their Agricultural Adjustment Act, which permits the President to impose tariffs and quotas whenever necessary to protect domestic production and prices, conflicts with their undertaking under G.A.T.T. Until American farm policy can be changed it is thought that the American Government will insist on a change in G.A.T.T. in order to regularise the existing position.

It is, of course, not yet possible to see the shape of the new G.A.T.T. but it might be said that the review has started on a realistic and hopeful basis. By and large, liberal views have prevailed and many of the detailed suggestions, such as the proposal to bring G.A.T.T. into closer touch with the International Monetary Fund, deal with some of the weaknesses of the existing regime. However, much depends on the detailed formulation of the proposals concerning quotas and discrimination. It is, also, perhaps a pity that there has not been more interest in the suggestion that commodity agreements should be brought within the General Agreement as they were brought within the Havana Charter. For it might well be that in tightening G.A.T.T. more use will be made of such agreements in the future and a new conflict brought about. Certainly one of the few conclusions that can be made about the working of the International Wheat Agreement hitherto is that it legalised American dumping which would otherwise have been a cause for complaint under the General Agreement.

U.K. SURPLUS ANALYSED

THE publication of the White Paper showing the United Kingdom's balance of payments during the first half of 1954 added to the brief information previously disclosed by the Chancellor of the Exchequer about the size of the current account surplus. The improvement in this surplus, excluding defence aid, from £2 million and £107 million in the two halves of 1953 to £154 million in the first half of this year derived from a reduction in the visible account deficit to £46 million and an increase in the surplus on invisibles to £200 million. Export earnings increased faster than the bill for imports, while an improvement in net shipping earnings helped to swell the invisible account. Furthermore, if allowance is made for the seasonal incidence of oil royalty payments, there would seem to be an impressive rising trend in earnings from the Middle East oil fields, reflected in the omnibus item " Other net credits ". In considering the balance of invisibles, however, it must be remembered that the first half of the year gains at the expense of the second half by reason of the debt payments to America and Canada being concentrated at the end of December.

When analysed regionally, the balance of payments shows a most satisfactory record. The United Kingdom was in current account surplus with all regions except the dollar area, and the small deficit with that area is converted into a surplus if defence aid of £24 million is counted in. Not since the end of the war has the general pattern been so healthy.

Including the receipts of defence aid, the overall surplus amounted to £178 million. In the same period the gold and dollar reserves rose by £179 million. Overseas investment was accordingly practically in balance with the increase in sterling indebtedness. The figure for net investment abroad, less repayment of loans to the United Kingdom,

is shown as £88 million. Sterling indebtedness, on the other hand, increased by £89 million; the rise of £120 million in sterling liabilities was offset by a reduction of £23 million in the debit balance in E.P.U., and by an increase of £8 million in official holdings of non-dollar currencies. The rise in sterling balances held by the colonies was again a prominent feature of the total increase. Their share was £86 million, while £32 million belonged to other sterling area countries, and £2 million to the rest of the world. Told in the briefest terms, therefore, the United Kingdom has been lending abroad practically the same amount it has borrowed from the colonies.

GOLD AND DOLLAR ACCOUNTS (In £ million)

	1953		1954	Changes* in Jan.–June, 1954	
	Jan.–June	July–Dec.	Jan.–June	On Jan.–June, 1953	On July–Dec., 1953
TRANSACTIONS WITH DOLLAR AREA					
UNITED KINGDOM					
Visible trade (net)	38	− 40	28	+ 10	+ 12
Defence aid (net)	+ 55	+ 47	+ 24	31	23
Interest on North American debt	2	40	− 2	—	+ 38
Other invisibles (net)	+ 13	− 7	+ 22	+ 9	+ 29
Balance of current transactions (including defence aid)	+ 28	40	+ 16	12	+ 56
Repayment of North American debt	5	− 38	− 6	1	+ 32
Other capital transactions (net)	+ 28	+ 38	+ 39	+ 11	+ 1
U.K. net credit or debit	+ 51	40	+ 49	2	+ 89
REST OF STERLING AREA					
R.S.A. net credit	+ 82	83	+ 93	11	+ 10
TRANSACTIONS WITH NON-DOLLAR AREAS					
Gold settlements with E.P.U.	49	8	23	26	+ 31
Other gold and dollar transactions with non-dollar areas	+ 4	19	14	+ 10	− 5
Net credit or debit from transactions with non-dollar areas	+ 53	+ 11	+ 37	16	+ 26
Total net credit or debit†	+ 186	54	179	7	+ 125

* Changes increasing net credit, +

† Corresponding to change in gold and dollar reserves.

GOLD RESERVES RECOVER

FREED from the incubus of the special payments by Britain which had affected the figures during the previous three months, the sterling area's gold and dollar reserves made a satisfactory recovery in October. The addition for the month was $35 million, raising the total to $2,936 million (or 75·9 per cent. of the last peak of $3,867 million in June, 1951), but dollar aid in October was on a relatively large scale, amounting to $17 million. A further $8 million represented the customary 50 per cent. settlement in gold in respect of the September surplus with the European Payments Union. This surplus was due entirely to the special paym

of French debt to the United Kingdom, and is therefore an extraneous item, since it does not reflect any commercial surplus with Western Europe. On the other hand, $2 million was paid by the United Kingdom to European countries in accordance with the debt funding arrangements made last summer. After allowance for these various items, the balance of the $35 million gain on the month, namely $12 million, represents the sterling area's real surplus.

STERLING AREA'S GOLD AND DOLLAR RESERVES
ANALYSIS OF GOLD MOVEMENTS
(in $ million)
Gold Payments (−) or Receipts (+)

End of Period or Month	Net Surplus or Deficit	of which E.P.U. Settlement	of which Balance with Rest of the World	Defence Aid	Change in Reserves	Reserves at End of Period or Month	% of last Peak of $3,867 million in June, 1951
1951							
1st half monthly average	+71	+7	+64	+23	+94	3,867	100·0
2nd half monthly average	−232	43	−189	+6	−226	2,335*	60·4
1952							
1st half monthly average	−141	59	−82	+37	−97	1,685	43·6
2nd half monthly average	+19	+14	+5	+38	+27	1,846*	47·7
1953							
1st half monthly average	+59	+23	+36	+28	+87	2,367	61·2
3rd quarter monthly average	+12	−6	+18†	+28	+40	2,486	64·3
4th quarter monthly average	+52	−2	+54	+19	+71	2,518*	65·1
1954							
1st quarter monthly average	+36	+2	+34	+20	+56	2,685	69·4
2nd quarter monthly average	+104	+20	+84	+6	+110	3,017	78·0
July	+80	+4	+76	+15	−4‡	3,013	77·9
August	+6	+11	−5	+11	−95§	2,918	75·5
September	−26	−14¶	−12	+9	−17	2,901	75·0
October	+18	+6¶	+12	+17	+35	2,936	75·9

* After payment of $181 million on December 31 each year to service various North American loans; these items are not included under "Balance with Rest of the World."
† After payment of $39 million to Canada under new agreement for amortising 1942 loan.
‡ After special payments totalling $99 million in mid-July to Britain's creditors in E.P.U.
§ After repayment of $112 million to I.M.F.
¶ After payment of $2 million to E.P.U. creditors.

Since the October statement covered a time when seasonal pressure against sterling was continuing, the figures are encouraging, the real surplus of $12 million being the surplus with all areas (including North America) outside the E.P.U. The gold and dollar figures, of course, have still to be affected by the dock strikes in Britain and Australia, and the December return will include the effect of the half-yearly instalments on the U.S. and Canadian credits. Thus, although the return for November will include the 50 per cent. gold payment on account of the October surplus of £5 million with the E.P.U., and conditions should now be more conducive to favourable balances on sterling area trade, the reserves will in any event take time to regain the figure of $3,017 million at which they stood at the end of June.

NEW SAVINGS LIMITS

THE new national savings drive has certainly been given an important stimulus by the further increase recently announced in the limits placed by the Treasury on individual holdings of the two securities specially designed for the small investor. The number of National Savings certificates

of the current series which may be held by any one person has been raised from 700 units (representing a purchase price of £525) to 1,000 units (£750), while the maximum permitted holding of 3½ per cent. Defence bonds has been doubled at £2,000. These increases, perhaps, may appear to have little connection with the main objectives of the savings drive, which aims at attracting two million new savers to the national savings movement and 500,000 new members of savings groups.

In setting out to fulfil these targets, workers in the movement must have been encouraged by the recent record of new savings. Owing to the rising tendency of gilt-edged stocks over a long period—which has, for example made Defence bonds look decidedly attractive—and also because of the revival of personal saving, the national savings figures have been making an excellent showing during the past three months. Thus, in spite of the heavy seasonal encashments of past savings during the summer holiday period, new savings as a whole exceeded withdrawals for the first seven months of the current financial year, and net savings last month were the best for several years.

The raising of the limit to individual holdings of Savings certificates and Defence bonds is doubtless attracting additional money, but this must be mainly from savers of rather larger means, and must in some instances mean the transfer of previously accumulated funds from one form of saving to another. The higher limits however, can be regarded as complementary to the aims of the new savings campaign, which with its emphasis on the attraction of the new saver, will raise the number of savers of small means. With higher maxima on single holdings of savings securities, the total of national savings should meanwhile be kept on the increase by the participation of those who have already accumulated funds for investment.

SELLING STEEL SHARES

The successful public offer of 15 million Dorman, Long and Company £1 ordinary shares at 22*s.* 6*d.* each marked a new stage in the denationalisation of the steel industry. It was the opening offer of the second year of periodical sales of large blocks of steel company shares to the public; and with its completion the Iron and Steel Holding and Realisation Agency can claim to have disposed of the equity in companies employing 50 per cent. of the workers in the steel industry.

A year ago the task of selling any large part of the industry back to the investing public seemed almost superhuman. The substantial discount which was quoted on the shares of the United Steel Companies—the first steel shares offered to the public under the denationalisation project—suggested that permanent investors were unwilling to put money into the steel industry owing to the threat of the Parliamentary Opposition to nationalise the industry afresh, evidently on terms unfavourable to investors, at the first opportunity. Yet in spite of the fears which appeared justified at that time, the Realisation Agency has succeeded in marketing steel securities of a value of some £73 million.

Undoubtedly the past year's substantial advance in Stock Exchange prices for all home equity shares has been a highly important factor in this success. As other prices rose, the high yields offering at market prices for steel shares made them attractive in comparison with the general run of industrials. A revision of ideas among investors

as to the impact of re-nationalisation, if and when it should occur, has also contributed to a growing popularity of steel shares, and has raised each of the four predecessors of the Dorman, Long offer to well over the prices at which they were made available to the public. While events have thus moved in favour of the sale of steel shares, great credit attaches to the Realisation Agency for the astute policy it has followed, as well as to those who have devised the form and terms of the marketing and to the financial interests in the City and elsewhere who have consistently given the offers their essential support.

HIRE PURCHASE BANKING

AN entirely new line in British banking investment policy was taken last month when the Commercial Bank of Scotland concluded the purchase of Scottish Midland Guarantee Trust and that company's subsidiary, Second Scottish Midland Guarantee Trust. These two companies, formerly a subsidiary and sub-subsidiary of the Scottish Motor Traction Company, are engaged in financing hire purchase contracts, over 90 per cent. of their business being concerned with instalment selling of motor vehicles, and the remainder relating to plant and machinery. The Commercial Bank directors intend that the policy of the two companies shall be continued, but believe that by acquiring them the bank will be able to foster the manufacture of plant in Scotland. The purchase price of about £1¾ million is being provided from the bank's own resources.

Although it has been recalled that the Bank of England had an interest at one time in the United Dominions Trust, the entry of a trading bank into the direct financing of instalment purchases breaks new ground. The banks in general make advances to hire purchase finance companies, and to companies engaged in selling on easy payment plans, but the ownership of companies financing hire purchase has so far been considered outside their scope. It will be interesting to see if other banks adopt the same course as the Commercial Bank. In this connection, however, it is noteworthy that the Commercial Bank's new investment has apparently been made with a special object—the development of manufacturing in a certain field—which may not be such a strong incentive to other banks to enter instalment buying finance.

Apart from the acquisition of new interests, the Commercial Bank of Scotland was in the news last month with an increase of capital. It is proposed to write up the bank's £1 "A" shares, at present 6*s.* paid, to 10*s.* paid by the application of £1,400,000 of reserves, which have been raised by £400,000 during the past year, £100,000 being from profits and £300,000 from inner reserves. This will alter the amount of future dividends on the "A" shares, but the directors anticipate that in the absence of unforeseen circumstances the dividend for 1954–55 will be not less than that paid for the past year, which itself represents a further increase in the rate. The final dividend on the "A" shares for the year to October 30 last is to be 9 per cent. making 17 per cent., compared with 16 per cent. for 1952–53 and 15 per cent. for many years previously.

AUSTRALIAN BANKING CAPITAL

SEVERAL of the Australian banks have issued new shares during the past year or so to keep their capital in line with the growth of their business. The latest to follow this course is the National Bank of Australasia, which is increasing its nominal capital and offering new shares to share-

holders. Existing nominal capital is 10 million shares of £A1 each, of which 8,526,025 have been issued, 3,726,025 being fully paid shares while 12*s.* 6*d.* per share has been paid up on the remainder. The issue is in the proportion of one new share for every two shares held, the 1,863,012 new fully paid shares being offered at 26*s.* each and the 2,400,000 new 12*s.* 6*d.* paid shares at a premium of 3*s.* 9*d.* At the same time, the nominal capital is to be doubled at £A20 million.

Owing to conditions which have affected all Australian banks alike, the various items in the balance sheet of the National Bank of Australasia have fluctuated considerably from year to year, but its business has shown a substantial net expansion, and its earnings have risen substantially. The subscription of additional capital, and the share premium reserve arising from the new issue, will make for a proper ratio between the bank's capital and reserves and its liabilities, even allowing for some further growth of the latter in future.

SHIP FINANCE LOANS

THE decline in orders for new construction in British shipyards left its mark on the work of the Ship Mortgage Finance Co. in the year to June 30 last, but did not prevent the transaction of a good deal of new business. The company was formed early in 1951 under the *aegis* of a combination of shipbuilding, insurance and other City interests to augment the facilities then available to shipowners for financing new vessels. Its latest annual report shows that applications for finance during the year totalled £6 million on 15 ships, against over £12 million covering 36 vessels in 1952–53, and the total of approved loans was £1,025,000 against £1,710,000. Net profit, however, increased from £18,626 to £23,247, in spite of a greatly increased tax charge, and a " maiden " dividend of 3 per cent. has been announced on the paid-up capital of £500,000.

During recent months the number of inquiries for new loans has shown a rising tendency, and the earlier increase in the proportion of applications from British shipowners has continued. Advances outstanding at the date of the accounts amounted to £1,515,477, and the total advanced or to be advanced was £3,629,000 in respect of 17 ships. Sir James Milne, the chairman, states that known commitments to date are sufficient to absorb all the proceeds of the company's debenture issues, apart from any new business which may be undertaken in future.

BULLION NOTES

THE low level of the sterling–dollar exchange rate, coinciding with a period during which there was good overseas demand, found the price of gold " fixed " on September 28 at 251*s.* 5½*d.* Since then—and before—there have been sharp fluctuations but of recent days when turnover has been of more slender proportions, conditions have been rather steadier; a lessening in continental enquiry has found the dollar price of gold delivery London recede gradually from $35·09 to $35·06 before rising slightly to $35·06½. Although not unnaturally stocks and offerings of gold coins here continue to diminish, the price of sovereigns has fallen to 65*s.* 9*d.*; this has been consequent on lessened overseas buying interest.

In London the autumn saw a revival of buying interest for silver with a consequent sharp reversal in trend. In addition to normal demand, not unsubstantial enquiries—mainly for manufacturing purposes—were received from the continent while orders from the Middle East for Maria Theresa thalers also continued. In the result the price advanced rapidly and, compared with 73*d.* on September 8, the official quotation reached $74\frac{3}{4}$*d.* by October 15; bars available for export have throughout only been obtainable at a premium of around $\frac{1}{2}$*d.* The supply position, tending at times to be on the tight side, certain purchases—for the needs of essential users here—were made from U.S.A. and Canada for prompt shipment; the slight reduction in the official price on November 15 to $74\frac{1}{4}$*d.* reflecting arrivals, was a corollary. In New York too there has been a broadening of activity, seasonal demand on the part of silverware manufacturers being well to the fore. Turnover has, on occasion, been well above average and, in the absence of supplies from non-regular sources, the tendency has remained firm; the market price of $85\frac{1}{4}$c. has, however, continued unchanged.

Activity in platinum has been rather restricted and, in face of scattered liquidation by stale " bulls " but more particularly by reason of the likelihood of further sales on Russian account, the level in London has fallen to the neighbourhood of £27.

TROUBLE WITH PIGS

MANY small pig producers have had difficulty this year in repaying their bank advances. With the end of meat-rationing, there has been a smaller demand for pork for home consumption. We have not, as has Denmark, developed a bacon production proportionate to our needs. Pork is not in great favour here during the summer months, whilst there is a steady demand for bacon all the year round. This year the pig producers allege that whilst the Government have exhorted all and sundry to increase pig production they have not reduced releases of imported bacon proportionately to the increased home supplies. Whatever be the truth of this charge, the facts are that prices have moved bewilderingly and that too many producers have had to take advantage of the Government's deficiency payments to make ends meet. Yet the producer of a Grade A pig has had no difficulty in getting top prices from the bacon factories; it seems, therefore, that the solution lies in efficient production of the right kind of bacon pig at the right weight. The Danes have developed an almost perfect breed of bacon pig, the Landrace, but shrewdly do not export the live animal. Those that have arrived here via Sweden will, we hope, together with the Large White, form the basis of an expanding production for bacon purposes. After the price shocks of this summer the market here has recovered somewhat, and it is possible to view the immediate future with more optimism.

OUR TITLE

COMMENCING with the January, 1955 issue we shall use only the abbreviated name of *The Bankers' Magazine*. We shall discontinue the " Insurance Section " as such, though from time to time we shall publish matters of special insurance interest, as for example, the special article on " Life Assurance as Investment Medium " in November, and our Legal expert's article on " Marine Insurance of Goods " in this issue.

December, 1954

Overseas Notes and Comments

TRADE AGREEMENT WITH POLAND

After the U.S.S.R., Poland is from the British point of view by far the most important trader of the Communist countries. In the three years 1951–53, the United Kingdom purchased nearly £60 million of Polish goods and, in return, exported about £22 million worth. The difference was partly used by Poland to pay for imports from the rest of the sterling area. This trade was carried on under the 1949 five-year Anglo-Polish trade agreement, and for some months the two parties have been discussing a renewal. The fresh pact was signed on November 11, its high light being a promise by the Poles to pay £5,465,000 by instalments in settlement of nationalisation claims and of various pre-war debts. The repayments will be related to the level of Polish sterling exports and if trade remains at its present size the total debt can be discharged by 1967. In addition, Britain should continue to receive the annual payments of £666,666 which are being made under an agreement of 1946.

Poland has also made an offer to the holders of the Municipality of Poznan 6 per cent. loan, 1928, and the Republic of Poland 4½ per cent. (formerly 7 per cent.) loan of 1927. This offer has been refused as inadequate.

The trade arrangements now concluded run until 1956 and seem to be on much the same lines as in the past.

O.E.E.C. REVIEWS

From time to time O.E.E.C. issues reports on the economic conditions ruling in member countries. Three such—on Italy, Canada and U.S.A.—have recently appeared.* After going through them, any reader who is used to this kind of literature is likely to feel that the authors of the two first have not added much to his knowledge. In a dozen small pages it is quite impossible to *discuss* past events and future prospects ; all that can be given is what is given here, a brief backward look and a perfunctory forward glance.

Italy has done very creditably over the past three years. Internal financial stability, a high rate of investment and a large degree of trade liberalisation—this triple virtue is one that some nations more favoured by nature have failed to achieve. Unfortunately, the current balance of payments, though much healthier than in 1952, is still tilting at about U.S.$300 million on the wrong side thanks partly to the restrictionist attitude of Italy's partners in E.P.U. and partly to Italy's own exports structure. The overall balance of payments, including capital transactions, ended up $187 million in the red in spite of American aid to the tune of $124 million. Against this must be set gold and foreign exchange reserves of something over $835 million.

There is no alleviation of Italy's big internal problem, that of over-population. Part of it is not " real," in the sense that it merely mirrors under-development of resources. Yet when the great twelve-year expansion programme in the south has at last been

***Economic Conditions in Italy* and *Economic Conditions in Canada and the United States*. (Paris Organisation for European Economic Co-operation, 1954).

completed there will still be millions of people living in Italy unemployed or under-employed who in the bad old days would have been enriching other countries with their labour.

To *Canada*, the U.S. 1953–54 recession was a powerful threat. In the event it has brought her a fall of about 4 per cent. in industrial production, but the fall was from a very high point. Total exports during the first half of the present year have been some 7½ per cent. below a year before, but the cut-back in imports has left the deficit in the current balance of payments in a better state than in the early part of 1953. The inflow of private long-term capital has remained brisk, and the continued premium on the Canadian over the U.S. dollar suggests that there is little to worry about.

The Organisation's report on the *U.S.A.* is a more thorough affair, with an appendix containing some useful diagrams and tables. The conclusions from the data up to last June are cheerful as regards the future; but the final section, while paying tribute to the "unprecedented measures as a strong creditor nation" taken by the United States throughout the post-war period, is firmly critical of an American import policy that grudges the rest of the world the opportunities to *earn* the dollars that would allow them, in turn, to abandon discrimination against American goods.

LIBYA*

TOBRUK, Benghazi and Tripoli are names that must awaken the memory of hard experiences in the minds of many. Recently, Libya, the country which contains all three of them, has come prominently into the news owing to the murder of its most forceful statesman, the Minister of Palace Affairs, by a nephew of King Idris. This violent act is apparently a manifestation of a great family feud and there is no certainty yet that further trouble will not occur. If it does, it may destroy the federal kingdom which began its somewhat artificial career in January, 1952. Since its inception it has been one of the numerous foreign burdens of the British taxpayer. Under the twenty-year 1953 treaty we undertook to pay the new state £3.75 million a year for five years, and other sums to be assessed at the end of the remaining five-year periods. Libya is perhaps the poorest country in the Middle East. About ten times the size of Great Britain, nine-tenths of it is barren and there does not seem to be any mineral wealth. Except for a few thousand hardworking Italian settlers on the coast the population consists almost entirely of illiterate Arabs. Independence came as the reward of King Idris' unwavering support of the Allies during the desert war; but Britain and the U.S.A. have strong existing reasons for supporting it to-day, for just outside Tripoli, under American control, there is one of the most important military airfields in the world.

Early last month the Libyan Currency Commission issued its second report. The local pound is kept at par with sterling—Libya forms a part of the sterling area—and the note issue is mainly secured by British Government stocks.

There are some real if modest openings for our exporters. Total imports into Libya in 1953 totalled £13.2 million, of which £3.8 million came from the United

*See also the article "Currency, Banking and Finance in Libya," *The Bankers' Magazine*, November, 1954.

Kingdom. Unfortunately the inhabitants' purchasing power—except that part deriving from the expenditure of British and American bases—fluctuates sharply because of the uncertainty of the rains, upon whose vagaries the whole coastal and plateau crop production depends.

GOLDEN JUBILEE

On October 17, 1904, a young man called A. P. Giannini, the son of an immigrant from Italy, set up a bank in San Francisco. Fifty years later, and not long after the death of its founder, "A.P."'s creation celebrated its jubilee as the Bank of America National Trust and Savings Association, the biggest bank ever. To mark this anniversary the Bank of America has issued an illustrated brochure entitled *The Californian Trend* devoted to showing the progress made by the State of California during the bank's lifetime. It is an impressive story. The population has risen from 1½ million to over 12 million, and is to-day increasing much faster there than in any other state. In 1900 California ranked twenty-first in order of population, by 1930 it was sixth, by 1952 second only to New York State. Los Angeles has 2 million inhabitants, San Francisco nearly 800,000, while six other cities have passed the 100,000 mark. *Per capita* income handsomely exceeds the national average and is still soaring. The absence of any restriction on branch banking has enabled the Bank of America to take full advantage of the California Trend, so that to-day its 545 offices stretch through a 1,000 miles from the borders of Oregon to the Mexican frontier. But something more than the Trend was needed to produce this giant with its deposits of $7,600 million, and those who were privileged to have dealings with A. P. Giannini know what it was.

COLOMBIA IN TROUBLE AGAIN?

Colombia was one of the dollar countries favourably mentioned by the Crosland Mission in 1952. Even at its best, however, it has been a suspect market, liable to bouts of over-importing followed by an outpouring of repentant restrictions. As over 80 per cent. of its exports consist of coffee the boom of 1953, following several good years, should have put prosperity firmly in the saddle. Yet the recent fall in price from 90 cents. to 70 cents. seems to have frightened the authorities into placing an embargo on the granting of new import permits during the week of October 15–22. On the latter date a system of restricted permits was introduced that promises to give exporters to Colombia a good deal of trouble. According to the Bank of London and South America, gold and dollar reserves, which were U.S.$279.8 million on July 9, had fallen to U.S.$206.9 by October 1. It is alleged, we do not know with what truth, that Colombia cannot afford to sell coffee at 70 cents. It may be that the citizens of the United States may oblige by restoring their early higher buying price; on the other hand they may not, in which case the Colombians will doubtless find some way of doing remunerative business at the present not ungenerous level.

THE OIL FLOWS AGAIN

Early last August an agreement was reached between a consortium of eight oil companies on the one hand and the Persian Government and the National Iranian Oil Company on the other. So ends the sorry chapter that opened with the departure of the non-Persian staff of the

Anglo-Iranian from Abadan in October, 1951. Under the new agreement, which has been duly ratified by the Persian parliament, the consortium has been granted beneficial use of the fixed assets for 25 years, with an option of renewing the right three times for periods of five years. The consortium represents the following interests in the proportion shown—British 45·6 per cent., American 40 per cent., Dutch 8·4 per cent., French 6 per cent. The working arrangements have involved the setting up of four new companies, and as there will be another eight formed in due course it is plain that the agreement is a complicated affair. The Anglo-Iranian Oil Company, which has now changed its name to British Petroleum, will receive compensation partly from the Persian Government and partly from other members of the consortium, and a good part of this money is already earmarked for the development of the company's interests in the Canadian oilfields.

The ratification of the agreement has been followed by a £10 million loan to Persia from Britain and by the promise of a $100 million loan from the United States. Persia will need every bit of this advance. Oil royalties will be small for some months and, in the meantime, there are pressing bills to be met. Import restrictions were relaxed last spring with the result, for instance, that British exports in the January–September period of the present year rose to £6 million as against £3·6 million in the corresponding part of 1953. The greater part of these goods were ordered in a burst of optimism and at the end of October large quantities of merchandise were piled up at the ports of destination awaiting payment. The pump-priming loans will set things going again, however, and the reception of Persia into the transferable account area on November 3 is a formal indication that we may expect normal commercial relations to be the rule in the near future. British exporters will nevertheless be wise to proceed cautiously, keeping their eye on the line pursued by the Export Credits Guarantee Department; when full cover at standard rates has been resumed then, and only then, will it be time to sound the *All Clear*.

INDIAN SUMMER

THE report of the Reserve Bank of India for the twelve months ended June 30, 1954 contains a useful survey of the period since 1947, the year of Partition. The years up to the middle of 1952 witnessed violent swings in prices and ever more successful efforts to cope with the impact of external events. Mistakes have doubtless been made but the Reserve Bank and the Government are to be congratulated on the manner in which control of monetary factors has been progressively improved, sometimes in very difficult circumstances. The boom associated with the early phases of the Korean war raised the index of wholesale prices from 396 in June, 1950 to a peak of 458 in April, 1951; by March, 1952 the figure had dived to 365, or 8 per cent. less than the pre-Korea level. As a result, the inflationary pressure that had distinguished the earlier period was suddenly replaced by a threat of recession, so that anti-inflationary measures, such as export duties, had to be rapidly cancelled. The situation was admirably handled during 1952 and the fruits of the wisdom shown then were reaped in 1953–54, the year covered by the Reserve Bank's report. The index of industrial production reached a record level in December 1953 and overall food production has been substantially larger than in

the previous year, thus relieving the import bill. A satisfactory balance of payments surplus has emerged which, in conjunction with a deliberate but controlled budget deficit, has contributed to an easing of the money supply. The general price level remained steady with a tendency to fall as a result of larger supplies of cereals, while the tone of the gilt-edged and equities markets was sound.

In this climate the Government has been able to resume the activities called for by its five year plan. Of most interest to foreigners has been the vigorous tendering for capital works by American, British, German and Russian interests. The new Industrial Credit and Investment Corporation of India had obtained a subscription of $1 million from U.S. private enterprise, and twice that from British concerns. Indian big business is putting up $7 million, the Government is lending $15 million and the World Bank $10 million. The Corporation's board of directors will to some extent reflect this variety of shareholding.

Big plans for steel works are afoot. A British-erected plant costing perhaps $155 million, Russian machinery to a similar value; these figures seem to be more than mere paper boasting and they give some idea of the measure of the Indian industrial revolution. They also give point to the recent remark by Mr. J. R. D. Tata at Tata's annual meeting:—" The choice before us is not between modern industry and old-fashioned industry, but between modern industry and no industry at all."

NEW ZEALAND

THE 2 million inhabitants of New Zealand enjoy a per capita real income that is among the three or four highest in the world. Thirty years from now, if the present rates of growth persist, the population will have reached 4 million; and, as agricultural land is by now fully occupied, it is to factory work and service industries that the increase will have to look for a living. This certainty is one of the reasons determining the Government's capital-raising policy. A year ago they came to the London market for a £10 million loan to finance the foreign exchange cost of a big paper and pulp plant. Last June there was a £30 million internal loan, towards which over £22 million came from new money. Then at the end of October there was another £10 million borrowing in London, this time in order to facilitate a variety of capital projects. It is worth noting that all through this period the external trade of New Zealand has been flourishing; it is not lack of funds that has caused her to raise external loans. In the year ended June, 1953, there was a surplus of £34·7 million on overseas exchange transactions and in the following year one of £25·2 million, while net overseas assets stood at £130 million last July—a record for that month. Evidently the Government intend to take no risks; it will not be they who will imitate the Argentine in freezing liquid balances by ill-judged capital acquisitions. It is a wise decision, for there are one or two unpleasant possibilities that may become certainties. Firstly, there is the over-full employment. According to the October number of the Australia and New Zealand Bank Survey the unemployed last May totalled 50 (fifty), while 12,310 unfilled vacancies were recorded. In November, 1953, there was a general wage increase of 10 per cent., and a month ago a further 3 per cent. award. These advances must be seen against the statement in the Reserve Bank annual report that the immediate problem is not a slide into a recession, but renewed

inflationary pressure. One immediate remedy surely lies in a stepping-up of imports combined with a tighter credit discipline for the less efficient units in the secondary industries : and as the restrictive exchange rationing of imports is to cease at the end of the present year we may expect to see purchases rise in 1955.

A longer-term anxiety is that some of the main export items may run into difficulties. The dismantling of food controls in the Motherland and the cessation of Ministry of Food bulk-buying contracts (with their prompt payment and their certainty) have left the meat and dairying interests wondering whether they will not take a nasty knock in a competitive market. Meat sales should hold up well but the outlook for butter and cheese is not too rosy. The switching of production from one branch to another in the highly specialised primary production set-up in New Zealand is not likely to be easy but before another twelve months is out we may see necessity enforcing a modicum of this kind of change.

The Danish Banking System

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DANMARKS NATIONALBANK

PRIOR to 1818 the financial situation in Denmark had undergone a series of unfortunate experiences which had from time to time shaken confidence in the note issue, and it was to avoid a continuance of such shocks that the Danmarks Nationalbank was established in that year as a private joint stock bank. The original charter gave the bank the sole right of note issue for a period of 90 years, and this was, on expiry, extended for a further 30 years. In 1936 the bank was, by Act of Parliament, made a self-governing, self-supporting institution and remains as such to-day.

The present arrangement is a compromise between those who wanted a State Bank entirely subordinate to the Government of the day, and those who would wish to see a completely independent bank of issue. In the bank's present form, the Government is indeed represented on the management of the bank, but only as a minority. The Minister of Commerce is given access to the meetings of the board, and must be present, or notified in advance, if important resolutions are to be passed. This is important for it ensures that the Government is at all times conversant with the policy the bank proposes to pursue. The Minister of Commerce cannot, however, exercise any right of veto, nor has he any authority to direct the bank along any particular line.

It cannot be said that the intentions of the Act have been carried out on clearly defined lines ; in 1931 the Government was forced to take wider powers to control the bank's activities, following upon its decision to abolish convertibility of the currency into gold. This gave the Minister of Commerce wide powers in the matter of currency control

and obliged the bank to act in harmony with him in all questions of currency deals and related matters. Since most problems of Central Bank policy are affected by such matters it will be seen that the demarcation between the bank's own decisions and those that must be referred to the Government is somewhat indefinite. Such negotiations as take place between the bank and the Government are secret, and in consequence it is not always easy to discern where, in questions of Central Bank policy, the real emphasis of power now lies. One is left to consider the financial policy as it emerges and try to read from events how independent in fact the bank really is.

During, and immediately after World War II, there seems to have been no disagreement between the policy of the Government and that of the bank. The financing of the German occupation army and the surplus of exports to Germany created a violent increase of liquidity which the State by way of tax policy, sale of bonds and special money-bonding regulations tried to keep in check. The money obtained was used for depreciation of a special regulation account in the National Bank, on which the said expenditure in connection with the occupation was booked.

A big surplus of imports after the war, including imports in connection with the E.R.P., involved a recovering of " idle money ", part of the amounts obtained through sales of currency and through E.C.A. funds being used for depreciation of the regulation account.

TABLE 1. BALANCE SHEET OF DANMARKS NATIONALBANK 1938, 1946 AND 1953
(In Kr. million)

	Dec. 31, 1938	Dec. 31, 1946	Dec. 31, 1953
ASSETS			
Gold, Foreign correspondents, currency and bills of exchange	229·9	319·4	1,005·4
Domestic bills of exchange, current account and loans	193·3	22·7	199·1
The Ministry of Finance	60·1	—	—
The Government regulation account	—	6,626·6	3,245·3
Sundry Government's accounts	58·8	—	80·0
Other assets	257·0	219·7	589·3
	799·1	7,188·4	5,119·1
LIABILITIES			
Notes in circulation	441·1	1,632·9	2,118·2
General capital fund	50·0	50·0	50·0
Reserves	43·9	35·3	89·9
Deposits on sight	122·6	2,884·6	472·7
Current account	19·3	87·5	397·1
The Ministry of Finance	—	286·3	8·3
The Ministry of Finance, special accounts	—	1,427·4	1,310·9
Foreign correspondents	28·2	719·9	611·1
Other liabilities	94·0	64·5	60·9
Total	799·1	7,188·4	5,119·1

Table 1 shows partly the extent of the increased balance of the bank as a result of the financing of the occupying power and partly the effect of the measures which were taken after the war in order to eliminate partially the increase in liquidity.

The supply of money during and just after the war was too heavy to be rectified by monetary policy alone. In order to avoid an inflation, direct measures were required, and monetary policy ceased to have any real effectiveness. Gradually as the recovering of idle money started to make itself felt, some disagreement seems to have come up between the bank and the Government as regards future policy. At the beginning of July, 1950, the National Bank raised the Bank rate from $3\frac{1}{2}$ per cent. to $4\frac{1}{2}$ per cent., and this did not appear to harmonise with the Government's intentions. At any rate it was felt in Government circles, both before as well as after the increase of the Bank rate, that development of the economy should not be made onerous by an increase in interest rates, or by a lending stringency. Even if relations between the State and the National-bank are veiled in secrecy, the difference between the declared aims of the Government and the raising of the Bank rate by the bank is so apparent that it can be assumed that the bank had been acting independently and against the desire of the Government. The conflict, by the way, seems to have been existing for some time prior to the increase of the Bank rate, seeing that towards the end of 1947 the bank itself recommended banks and savings banks to be reluctant as regards lending policy.

After the change of government in the autumn of 1950 the conservative Government in force started a restrictive fiscal policy, but even if the policies of the bank and the Government thereby came to be on a level as far as the purpose is concerned, this did not hold good of the means. It appears from the report of the bank for 1951 that the fiscal measures were found to be insufficient, and to have been carried into practice too late. It was held on the part of the bank that the exchange problems, which traditionally are the eyesore of Danish economy, should be solved first and foremost through restriction of consumption, and an attempt, under the circumstances prevailing, at solving the problems by means of the credit policy alone would mean serious overburdening of this remedy.

The first half of 1953 brought a further tension, and in the month of September, therefore, the bank thought the time to be appropriate for reducing the Bank rate. The reduction was published on the same day as the election for the Danish parliament took place before, however, the result of the election proper was known. Even if the reduction came to fit in well with the economic policy of the newly elected Social Democratic Government, this change of Bank rate did, in fact, constitute an independent action on the part of the bank, as the Minister of Finance of the Government in power had stated one week before the election that there was no basis for any lowering of the Bank rate.

Along with the return to power of the Social Democratic Government the neutral financial policy was shelved, and instead a pumping out of money through the State took place. In the course of the spring and the beginning of the summer of 1954 the effects of this new policy started to reveal themselves through the amount of currency in hand, and, therefore, on June 22 the bank raised the Bank rate to $5\frac{1}{2}$ per cent. Apparently, the increase took place in perfect harmony with the Government, who hoped that in this way it might be unnecessary to take more drastic measures. As these hopes

were not realised, the Government, through a political compromise in the autumn of 1954, had to carry into effect various measures of a consumption-restrictive nature.

Of course, the fluctuations in the economy of the country—as it appears from Table 2, have been influencing the level of interest in both upward and downward directions.

TABLE 2

	Bank rate	Interest on savings deposits
Jan. 1, 1938—Febr. 22, 1939	4	4
Febr. 23, 1939—Sept. 19, 1939	3½	4
Sept. 20, 1939—Oct. 9, 1939	4½	4
Oct. 10, 1939—May 21, 1940	5½	4 or 4½
May 22, 1940—Oct. 14, 1940	4½	4 or 4½
Oct. 15, 1940—Jan. 14, 1946	4	4 or 4½
Jan. 15, 1946—July 3, 1950	3½	3½ or 4
July 4, 1950—Nov. 1, 1950	4½	4
Nov. 2, 1950—Sept. 22, 1953	5	4½
Sept. 23, 1953—June 22, 1954	4½	4½
June 23, 1954—	5½	5

From the above it will be seen that the Danmarks Nationalbank takes up rather an independent position in the relation to the Government and Parliament, which is of quite some importance if a valuation of Denmark's economy for some time ahead is to be made.

The National Bank is not an ordinary commercial bank, and does not, properly speaking, carry on ordinary banking business. It acts as the banking institute of the State and the banks, and leaves the day to day public banking to be carried on by the commercial banks. Since the second world war it has been primarily concerned with the sale of Government bonds, and through its " open market policy " it exerts decisive influence upon the fixing of prices on the Danish Stock Exchange.

COMMERCIAL BANKS

The history of the Danish commercial banks commences at a fairly recent date. The first bank was established in 1846, but only during the second half of last century did the development of banking activity make swift progress, concurrent with the growth of industrialisation and the subsequent demand for financing. The eldest of the three big banks—the Privatbanken—was founded in 1857, and in the early seventies the two other main banks—the Landmandsbanken and the Handelsbanken—were established.

Up to the outbreak of World War I, a total of 145 independent banks were existing—spread all over the country. However, the inflation of the first world war contributed markedly to the growth of the banks, and in 1921 the number of independent banks had risen to 208, of which, however, 12 had come to be included through the reunion with South Jutland.

This number was somewhat reduced during the period of decline in the twenties and at the outbreak of World War II the number of independent banks was 161.

By the end of September, 1954, the distribution of these banks was as follows:

	Number of commercial banks	Share capital and reserves
Main Banks	3	416·8
Metropolis, otherwise	14	145·3
Metropolis, total	17	562·1
Provinces (excluding the two banks on the Faroe Islands)	142	360·4
Total	159	922·5

Qualitatively, the three big banks play a predominant part within Danish banking. Together they represent 48 per cent. of the total balances of all banks, thereby creating a concentration within a decentralised system of banks. Even though we cannot talk about any difference proper in the *modus operandi* of the individual banks, still the activity of the big banks is marked by certain characteristic features, which, partly, are a consequence of their activity as correspondents for the other banks, and, partly, a result of the fact that the principal part of the extensive foreign trade of the country, directly or indirectly, goes through Copenhagen, the capital of the country, where the three big banks have their head offices. In addition the three banks have for many years been taking part in a syndicate acting as intermediary link in connection with the emission of the loans of the State and a few larger municipalities.

After World War II the State has partially amended its procedure for the issuing of loans. Instead of taking the loans at a fixed price through a syndicate, the State now sells its bonds successively through the National Bank to the market, at the market rate prevailing.

As a consequence of the big holdings of bonds of the main banks they exert, together with the National Bank, decisive influence upon the fixing of prices at the Stock Exchange.

The Danish provincial banks tend to concern themselves purely with local affairs. As a rule they have been established for attending to the credit requirements of their particular territory, and in the performance of this task they have been of valuable importance to the economic development of the provinces. Altogether the balances of the provincial banks account for 35 per cent. of the total of bank balances.

The Danish Bank Act, to the provisions of which all commercial banks are subjected, gives no explanation as to what is understood by a commercial bank. If distinction is to be made between the commercial banks and, for instance, the savings banks, reference consequently has to be made to the way in which these two kinds of money institutes are carrying on their business, and to the special transactions that are typical of them.

Broadly speaking, there is no difference between a British and a Danish commercial bank in the way in which they operate. Differences may of course be found in the varying technique which is applied in daily work, but in the basic banking activity—accepting deposits and placing these deposits within various lending groups, there are so many similar features that we can hardly speak about two different banking systems.

Advances by Danish banks are mainly in the form of cash credits or overdrafts; deposits are partly at call and partly at three-monthly, six-monthly or nine-monthly terms. The rate of interest on deposits and loans in general is usually fixed, if possible, in relation to the Bank rate.

December, 1954

Whereas British banking activity in a marked degree is built upon tradition, the basis of Danish banking activity is to be found in the Bank Act of April 15, 1930. The Companies Act of England, 1948, sections 429–432, certainly contains some stipulations having special relation to banking—but these stipulations are few, and only set out the liability of the banks to publish their balance sheets. The Danish Bank Act, on the other hand, is very extensive. Below are just a few of the most important regulations:

1. Any bank shall have its by-laws accepted by the Board of Trade.
2. A bank's capital must not be less than Kr. 300,000 and in connection with open reserves not less than 10 per cent. of the bank's total liabilities.
3. The cash in hand together with the holdings of safe, easily negotiable securities, shall amount to at least 15 per cent. of the bank's liabilities payable at shorter notice than one month and to at least 10 per cent. of the bank's total debt and guarantees.
4. A bank shall not grant any single customer credit to an amount exceeding 35 per cent. of the bank's capital and reserves.
5. A bank must not without special permission acquire more than 30 per cent. of the share capital of other banks.
6. Establishment of branches is permissible, but new establishments must be reported to the superintendent of banks.
7. The banks are subjected to supervision by the State superintendent of banks, who regularly checks the solidity and activity of the individual banks, and to whom the banks must report periodically on their activity.

Special attention should be given to item 5, the stipulations of which are probably the actual obstacle to a bank concentration such as it has been experienced by Sweden for instance.

Beyond the stipulations quoted above, the Danish Bank Act gives extensive description of the kinds of transactions that may be carried out by a bank—largely of the same nature as the transactions that are carried out by a British bank.

Still, the Danish banks carry on no trustee activity proper, such as is known from English banking. Trading in bonds and stocks and shares is likewise effected in a somewhat different way in Denmark, which is due to the fact that by far the greater majority of the Danish material of bonds, stocks and shares is represented by securities to bearer. A Stock Exchange transaction is effected by the handing over of the securities in question.

The balances of the Danish banks per December 31, 1953, were as follows:

COMBINED BALANCE SHEET OF ALL DANISH COMMERCIAL BANKS

	Dec. 31, 1953 (in Kr. mill.)
Cash in hand, deposits, credits and loans with other banks	1,193·5
Foreign correspondents—currency and bills of exchange	156·8
Bonds, shares and mortgage deeds	1,513·8
Domestic bills of exchange	747·4
Advances, cash credits and current account	4,684·8
Sundry debtors	248·7
Guarantees	433·9
Other assets	249·3
	9,228·2

LIABILITIES :	Dec. 31, 1953 (in Kr. mill.)
Share capital	372·4
Reserves	521·8
Banks and savings banks (deposits and loans)	538·8
Other deposits	5,123·9
Current account	1,569·1
Foreign correspondents	139·9
Guarantees	433·9
Other liabilities	528·4
	9,228·2

World War II had a marked effect on banking. The increase in the amount of money available in the open market produced an enormous increase in bank deposits, while bank loans decreased. The banks had, consequently, to increase their holdings of bonds and their cash reserves. Yet they have, however, been carrying on a prudent and careful credit policy. Naturally, economic fluctuations are felt by the banks, but the losses experienced on bad debts, etc., are comparatively small. As a whole it may be said that Danish banking is well founded, and fully up-to-date in its technique.

The Danish commercial banks consider it most important to maintain foreign contacts, not only to support Danish exports, but also in order to create good connections on the Danish market. For this purpose the banks have at their disposal excellent information facilities about Danish markets and about the persons or companies carrying on activity within these markets.

The agricultural sector of the Danish economy is served partly by the commercial banks and partly by the savings banks. The co-operative movement, however, has established its own bank " Andelsbanken," which is acting as a commercial bank with the principal object of serving the co-operative organisations. This bank, like the " big three," has branches all over the country.

THE SAVINGS BANKS

The difference between a commercial bank and a savings bank is not to be found in the way in which these two kinds of banks receive deposits from the public but more in their manner of granting loans and credits.

The first savings bank was established 1810 in Seeland. The object of this savings bank was to further thrift by receiving deposits on interest from the public, above all from people of small means, but also to assist the latter through the granting of loans.

This form of combined savings and lending bank was destined to become the universal type in Danish savings banks business. There was a period from 1820 until about 1850 when a type of savings bank emerged which had for its object only to receive deposits from people of small means for investment of these deposits in government bonds and as deposits with the National Bank. Possibly under British influence, this for a time, seems to have been the type of savings bank preferred. Gradually as savings banks got more common and money flowed from them to the Treasury and the National Bank these latter institutions refused to pay interest on this increasing flow of money. At the same time complaints were heard that the local traders and the peasants were short of capital. The result was that gradually the savings banks more or less voluntarily returned

to the originally Danish basic principle and learned to invest the greater part of their capital in direct loans and advances, partly as mortgage loans and partly as loans based on collateral and personal guarantee.

To-day there is no doubt that it is just this granting of direct loans and advances by the savings banks that is the basis of the strong position held by the savings banks in their respective localities in Denmark. For the savings banks this direct lending over a long period of time has been the best means of attaching the population to the savings banks and inspire saving and capital accumulation.

The savings banks are organised as self-supported institutions, so that neither founders nor guarantors—if any—are owners of the capital and profit. The result of this is that the commercial activity of the savings banks is to a large extent thrown into the background in favour of activity of more social character.

The first Danish Savings Bank Act was based on voluntary rules prepared by savings banks executives themselves in 1888. The Savings Banks Act has been revised and renewed in 1919 and 1937. The task of ensuring that the provisions of the Savings Banks Act are observed is entrusted to a Savings Bank Inspectorate ranging under the Board of Trade. The tendency has been to extend this control in order to create the greatest possible security for the depositors. The Act for instance provides that any new savings bank to be established should have at least 24 guarantors bound by the by-laws and that the management of a savings bank shall be presided over by a committee of at least seven members, one of whom is to be appointed by the Board of Trade. Savings bank legislation is intended merely to lay down the framework within which the banks can operate. Inside these limits the Danish savings banks have preserved their full liberty to decide for themselves how they want to work and to invest their means.

At present there are 501 savings banks in Denmark. Of these 378 were established before 1880. The size of the savings banks varies very greatly. Each of the two greatest savings banks has deposits amounting to Kr. 580 million, whilst the total deposits of many small savings banks amount to only Kr. 50,000. The deposits of the savings banks as a whole have been steadily increasing and per March 31 1,952, amount to a total of 4,991·2 million kroner as against 700 million kroner per March 31, 1900. The number of accounts on March 31, 1952, was 3·29 million as compared with 1·15 million in the year of 1900. The average amount of these deposits in 1952 was 1,515 kroner as compared with 576 kroner in 1900.

The assets of a savings bank shall, *inter alia*, be placed as follows :

I. (*a*) In debentures issued or guaranteed by the Danish Government or Danish municipality ;

(*b*) in loans on the security of real estate within 60 per cent. of the tax value of the property ;

(*c*) in advances against collateral security consisting of passbooks with other Danish banks or consisting in bonds and debentures quoted in the stock list within 75 per cent. of the purchase price.

II. As deposits with other Danish Banks or in any other safe and warrantable manner as e.g. in easily marketable security in loans against pledge, personal guarantee or corresponding security.

That part of the assets of a savings bank that is invested or placed otherwise provided under " I " must not amount to more than seven times the capital and reserves of the savings bank concerned.

COMBINED BALANCE SHEET OF ALL DANISH SAVINGS BANKS PER MARCH 31, 1953

(In Kr. million)

ASSETS	
Cash in hand, deposits with other banks	348·8
Bonds and shares	1,593·5
Mortgage deeds	2,218·6
Advances to municipalities, etc.	559·8
Other advances and cash credits	805·1
Other assets	127·0
Total	5,652·8
LIABILITIES	
Depositors' balances (cheque accounts and current accounts included)	5,169·1
Paid up guarantee capital	5·8
Reserves	369·1
Deposits from other banks	42·5
Other liabilities	66·3
Total	5,652·8

The annual profit of a savings bank shall be appropriated to a reserve fund or to special or renewal funds. Part of the profit may, however, be used for charitable purposes. As already stated, the Danish savings banks have no commercial basis, since it is not their purpose to pile up profits for any particular body of investors or owners.

On March 31, 1953, the capital belonging to the savings banks was as follows:

	Kr. mill.
Guarantee stock paid up	5·8
Stock price adjustment funds	31·2
Reserve funds	337·9
Funds	3·9
	378·8

Many forms of saving are introduced by the Danish savings banks. School saving, Youth Thrift Movement, saving for building own houses, saving for establishment of young people starting their own farm or own workshop, saving for pensions and many other forms of provident savings. Most of the big savings banks have special safe custody departments and trustee departments. Finally, it must be mentioned that most savings banks have special departments for helping depositors to budget their income. There appears to be a demand for this service especially amongst young married people.

The Danish savings banks have established a Guarantee Reserve Fund. Every year the member banks have to pay in an amount corresponding to a fixed proportion of the bank's deposits received from the general public.

Marine Insurance of Goods

By C. B. Drover

A CORRESPONDENT has raised the interesting question as to what extent, when goods are sold upon f.o.b. or c. & f. terms, the insurance cover arranged by the buyer is available to the seller. The correspondent draws attention to a case that occurred in the late nineteen twenties in Madras when a lighter carrying goods shipped on c. & f. terms sank in the harbour while taking the goods to the steamer. "Warehouse to warehouse" insurance had been arranged by the buyer, but underwriters refused to pay on the grounds that as the property had not passed to the buyer he had no insurable interest. The seller accordingly had to bear the loss himself. The correspondent further draws attention to the fire which recently occurred in the *Clan Stewart* at Calcutta, when some of the goods already placed on board were destroyed. In that case documentary credits had been opened, and as the seller was in a position to obtain the shipping documents, he was able to present these to the bank and obtain payment. The correspondent does, however, question what would happen if the documents contained some irremediable irregularity so that payment could not be made under the credit. He asks whether the buyer's insurance would be available to the seller, and whether the buyer could maintain that the property in the goods did not pass until payment had been obtained under the credit, thus enabling his insurers to claim that they were not liable. He further asks whether a bank which makes advances against shipping documents can be certain that the buyer's insurance will be available if the goods should be damaged or lost.

These questions raise interesting points relating to marine insurance, and it would perhaps be as well to consider, in the first instance, the general rules of law in relation to insurable interest in connection with a contract of marine insurance, and then consider the persons who may avail themselves of such insurance.

The law relating to marine insurance was codified in 1906 by the Marine Insurance Act, which became law on December 21, in that year. By Section 4, every contract of marine insurance by way of gaming or wagering is void. Such a contract is deemed to be a gaming or wagering contract "where the assured has not an insurable interest as defined by this Act, and the contract is entered into with no expectation of acquiring such an interest"; or where the policy is expressly made "interest or no interest," or "without further proof of interest than the policy itself," or "without benefit of salvage to the insurers," etc. Policies including the clauses of such types are known as "honour policies," as they are void at law. We are not here concerned with them, and beyond saying that there are occasions upon which they can serve a useful commercial purpose, we need say no more about them.

Insurable interest is defined in Section 5 as follows :—

"(1) Subject to the provisions of this Act, every person has an insurable interest who is interested in a marine adventure.

(2) In particular, a person is interested in a marine adventure where he stands in any legal or equitable relation to the adventure, or to any insurable property at risk therein, in consequence of which he may benefit by the safety or due arrival of insurable property, or may be prejudiced by its loss, or by damage thereto, or by the detention thereof, or may incur liability in respect thereof."

Section 7 provides that a defeasible or contingent interest is insurable, and this is particularly important where a buyer of goods has effected the insurance, for his interest in the goods may be regarded as defeasible or contingent notwithstanding that the property in the goods has passed to him, since he has a right of rejection if upon examination the goods should not comply with the contract, and additionally, he might possibly have a right of stoppage in transitu effected against him.

Section 8 provides that a partial interest of any nature is insurable and by Section 10 a lender of money on bottomry or respondentia (*i.e.* against a charge over the vessel and or her cargo) has an insurable interest in respect of the loan. Equally, by Section 11, the master or any member of the crew of a ship has an insurable interest in respect of his wages, and by Section 12 a person paying freight in advance has an insurable interest, in so far as such freight is not repayable in case of loss. By Section 13, the assured has an insurable interest in the charges of any insurance which he may effect (*i.e.* premium, brokerage and stamp), and by Section 14 where the subject-matter insured is mortgaged, the mortgagor has an insurable interest in the full value thereof and the mortgagee has an insurable interest in respect of any amount due or to become due under the mortgage.

Thus in the case of *Wilson* v. *Jones* [(1867) L.R. 2 Ex. 139] a shareholder in the Atlantic Telegraph Co. took out a marine insurance policy for £200 (*i.e.* £10 per share on 20 shares) "at and from Ireland to Newfoundland, the risk to commence at the lading of the cable on board the *Great Eastern* and to continue until it be laid in one continuous length between Ireland and Newfoundland, and until 100 words shall have been transmitted each way . . . . ." The venture failed, as the cable broke while it was being hauled in to remedy a defect, though one half of the cable was saved. It was held that the shareholder had an insurable interest, though he was only a shareholder and not himself directly engaged in the venture, and had furthermore no property in the cable or the ship.

A mere creditor, however, who is not a mortgagee or chargee of the goods or vessel concerned, has no insurable interest sufficient to support a marine insurance policy, though, of course, his debtor's solvency can be insured by a contract of insurance other than one of marine insurance.

Accordingly an insurable interest is essential to support a marine insurance policy, and the next question that arises is—when must the interest attach? This question is answered by Section 6 of the Act, which provides that the assured must be interested in the subject-matter insured at the time of the loss, though he need not be interested when the insurance is effected. Moreover, where the subject-matter is insured, "*lost or not lost*," as is usually the case with marine insurance, the assured is not debarred from recovering under the policy merely because he acquired his interest after the loss occurred, unless at the time of effecting the insurance, the assured was aware of the loss

and the insurer was not. The Act states that " where the assured has no interest at the time of the loss, he cannot acquire interest by any act or election after he is aware of the loss . . . " On the other hand a person can take an assignment of a marine insurance policy after a loss has occurred and with knowledge of the loss, since what he is in effect doing, is taking an assignment of a claim against underwriters.

It is obviously convenient commercially for a person to be able to effect an insurance policy before he is at risk. For example, in the case cited in the first paragraph above, it appears that only some, but not all, of the goods concerned had been loaded on board the *Clan Stewart*, and no doubt those that were loaded were covered by insurance. If it were not possible for the buyer to effect a valid insurance before the goods were loaded on board, considerable inconvenience would be caused to say the least. In this connection, it might also be emphasised that the exact scope of the policy is naturally a matter of considerable importance. For example, in the case of *Anderson* v. *Morice* [(1876) 1 A.C. 713], a buyer bought " the cargo of new crop Rangoon rice per *Sunbeam* " and took out an insurance policy accordingly. Before the whole of the cargo had been loaded, the *Sunbeam* suddenly sank at her anchors and the rice already shipped was lost. It was held that the assured had no insurable interest in the rice, since he was not at risk until a complete cargo had been loaded. On the other hand, in *Colonial Insurance Co.* v. *Adelaide Marine Insurance Co.* [(1886) 12 A.C. 128] the policy covered " wheat cargo now on board or to be shipped " and it was held in that case that the delivery of the wheat from time to time on board was a delivery to the purchasers and was insurable accordingly. The fact that if the sellers neglected to put a full cargo on board, the buyers could reject the wheat already on board, merely meant that the interest of the buyers in the wheat was a defeasible interest, and such an interest could constitute an insurable interest.

The third point that has to be considered is—who may avail himself of a marine insurance policy ? The answer to this question is that there are two classes of person who are so entitled ; namely (1) persons for whose benefit the policy was effected, and (2) assignees of the policy. It will be convenient to take each of these two classes separately.

The standard form of Lloyd's marine policy expresses that it is effected by the assured :—" as well in his own name as for, and in the name and names of, all and every other person to whom the same doth, may, or *shall* appertain." This does not mean that anyone subsequently acquiring an interest in the goods may avail himself of the policy. In order to do this such a person must show " that the person effecting the insurance either intended it to be for his benefit, or at all events did not intend it exclusively for the benefit of others having a conflicting or inconsistent interest, but meant it to apply generally, so as to cover the interests of those who should ultimately appear concerned." (See Arnould's *Marine Insurance*, 14th Edn., 1954, Sect. 172.) Accordingly, any party to whom an insurable interest in the property concerned " doth, may or shall appertain," may " by subsequent adoption take advantage of the policy to protect such interest, if it appears from extrinsic evidence that the person directing the policy to be effected intended at the time to protect this particular interest, or at any rate to protect the interests generally of the parties who should ultimately appear to be concerned. The onus of proving that the plaintiff's interest was intended to be insured under these general words is on him." (Arnould *op. cit.*, Sect. 173.)

Thus, in the case of *Yangtse Insurance Association* v. *Lukmanjee* [(1918) A.C. 585] teak logs were sold at a price " ex ship, payment against documents." The logs were duly shipped to Colombo, where the buyer took delivery ex ship, but while the logs were still afloat in the form of rafts, a large part were driven out to sea by a gale and lost. The insurance policy, which was not assigned to the buyer, or handed over to him, was expressed in the usual Lloyd's form, and covered " all risk of craft and/or raft from land to land." It was held that there was no evidence that the seller intended the policy to be for the buyer's benefit, and the buyer could not therefore avail himself of the policy. It would, of course, have been different if the contract for the sale of the logs had been a c.i.f. contract instead of an ex-ship contract.

It would also have been different if the policy had been expressly assigned by the seller to the buyer. Section 50 of the Act provides that a marine policy is assignable unless it contains terms expressly prohibiting assignment, and further provides that assignment may be effected either before or after loss. Where a marine policy has been so assigned so as to pass the beneficial interest in such policy, the assignee of the policy is entitled to sue thereon in his own name; and the underwriter is entitled to make any defence arising out of the contract which he would have been entitled to make if the action had been brought in the name of the person by or on behalf of whom the policy was effected.

Section 51 provides that where the assured has parted with or lost his interest in the subject-matter insured, and has not, before or at the time of so doing, expressly or impliedly agreed to assign the policy, any subsequent assignment of the policy is inoperative. This does not, however, prevent an assured from assigning a policy after a loss has occurred, if the loss occurred while he was still interested in the subject-matter.

Thus in the case of *North of England Oil-Cake Co.* v. *Archangel Insurance Co.* [(1875) L.R. 10 Q.B. 249], V. Brothers insured with the defendants a cargo of linseed to London including all risks of craft and lighters to and from the carrying vessel. While the vessel was on the voyage, the agent of V. Brothers sold the cargo in London to the plaintiffs. On arrival at London, the cargo was landed by lighters employed by the plaintiffs. One of the lighters sank, within the terms of the insurance policy. This was in February, and the policy was handed over by V. Brothers to the plaintiffs in the following June. The policy was not expressly agreed to be assigned to the plaintiffs by the sold note, and no such intention could be inferred because V. Brothers had to retain the policy for their own protection. When the linseed was loaded on to the plaintiffs' lighter, it was delivered to the plaintiffs. V. Brothers' interest ceased and the policy lapsed. The subsequent assignment of the policy to the plaintiffs occurred after the cessation of V. Brothers interest, and was therefore of no avail to the plaintiffs.

Section 50(3) of the Act provides that a marine policy may be assigned by indorsement thereon or in other customary manner. The usual practice now, at any rate in so far as policies covering cargo only are concerned, is to indorse merely by signing the name and without any covering memorandum expressly declaring the assignment. " So, if the policy is taken out by brokers in their own name, their signature is first indorsed and then the signature of the actual assignor or his agent. Such an indorsement in blank is the customary form of assigning all claims on the policy to the holder thereof for the time being. (See *per* Scrutton J. in *Aron* v. *Miall* [(1928) 34 Com. Cas. at p. 20]),"

(Arnould *op. cit.*, Sect. 177.) There is also some argument to suggest that mere delivery of the policy, without indorsement, is now a customary manner of assignment. (See *Safadi* v. *Western Assurance Co.* [(1933) 46 Ll. L.R. at p. 144].) In any event, however, the assignee must be able to show that the transfer of the policy was intended to be an assignment.

To turn now to the point raised in the first paragraph of this article, it will be apparent that insurance effected by the buyer under an f.o.b. or c. & f. contract can very rarely enure for the benefit of the seller. It is most unlikely that there could ever be any question of an assignment of the policy by the buyer to the seller, and the seller could only take advantage of the policy if he could show that in taking it out the buyer intended the policy to be for the benefit of the seller.

By Section 17 of the Sale of Goods Act, 1893, where there is a contract for the sale of specific or ascertained goods, the property in them (and hence the risk) is transferred to the buyer at such time as the parties to the contract intend it to be transferred, and for the purpose of ascertaining the intention of the parties, regard must be had to the terms of the contract, the conduct of the parties and the circumstances of the case. Section 18 lays down a number of rules for ascertaining the intention of the parties, unless a different intention appears from the terms of the contract, etc.

It has to be emphasised that all contracts depend upon their terms, and contracts for the sale of goods are no exception, but as a general rule it can be said that in the case of an f.o.b. contract, the property and the risk passes as soon as the goods have been placed upon the carrying steamer, provided that the seller has given sufficient notice to the buyer to enable him to effect insurance. (See Section 32(3) of the Sale of Goods Act.) In the case of an f.o.b. contract it is normally the duty of the buyer to nominate the carrying vessel, and in all ordinary circumstances he will therefore know upon which vessel the goods are to be shipped and will insure accordingly. Similarly, in the case of a c. & f. contract, the buyer would normally be at risk as soon as the goods were put on board, and would be bound (as indeed he would in the case of a c.i.f. contract) to take up and pay for the shipping documents upon presentation, even if the goods had perished on the voyage.

Our correspondent asks if it could not be argued that if the buyer arranges warehouse to warehouse insurance, it provides evidence that he intended the goods to be transferred to him at the warehouse at the port of shipment and not when the goods were put on board. This would not appear to be a tenable argument, because the intention must be the intention of the parties at the time of making the contract, and such intention can only be ascertained by considering the terms of the contract itself and the conduct of the parties and the surrounding circumstances at the time that the contract was made. Subsequent conduct would not be admissible evidence in the construction of the contract. Moreover, a contract requires the mutuality of the parties, and one party cannot by his own unilateral act vary a contract already concluded. The most that could be said is that because the buyer arranged warehouse to warehouse insurance, he effected the insurance for the benefit of the seller as well as for himself, but it is very unlikely that that mere fact would, in itself, provide sufficient evidence to enable the seller to avail himself of the policy. The moral is that if a person sells goods on f.o.b. terms, he should

ensure that he is covered until the risk passes to the buyer ; *i.e.*, normally until the goods are put fully on board.

With regard to the question whether, if after goods have been put on board under an f.o.b. contract and destroyed, and the seller was unable to obtain payment under a documentary credit by reason of some defect in the documents, the seller could avail himself of the buyer's insurance, the answer would seem to be that he could not so avail himself. Either the seller would be in a position to require the buyer to take up and pay for the documents, or he would not. If the defect in the documents was such that it amounted to a breach of the contract terms, *e.g.*, bill of lading dated after the last shipment date, then the seller could not compel the buyer to take up the documents. It would, in effect, amount to a rejection of the goods by the buyer, thus leaving them at the seller's risk. Again the seller could not take advantage of the buyer's insurance, unless the buyer took it out for the seller's benefit.

The proper rejection of goods by a buyer divests him of any property he may have in the goods and re-vests it in the seller, and certainly causes insurance difficulties. If the buyer rejects goods, he clearly cannot subsequently claim under his policy. Could he, on the other hand, first assign the policy to the seller and then reject the goods? Presumably he could not, if he intended to reject, and was entitled to reject, at the time that he assigned the policy.

Accordingly, if a bank makes advances to a seller against a shipment of goods upon f.o.b. terms, the bank should satisfy itself that the goods are fully insured by the seller * and, ideally that the bank's interest is noted by the underwriters (unless the actual policy, duly endorsed, is handed to the bank). If the goods perished on the voyage, it would nevertheless be the duty of the buyers to take up and pay for the shipping documents, and assuming that the buyers had in fact, effected proper insurance cover, there would presumably be no difficulty over this. The points then, which it would seem that the bank ought to watch are, (*a*) that proper insurance has been effected by the buyers (and ideally that the bank's interest has been noted by the underwriters), and (*b*) that insurance cover will be available if the buyers exercise a right of rejection of the goods.

Legal Decisions—A Retrospect

By C. B. Drover

THE November issue of *The Bankers' Magazine* contained the hundredth article on *Recent Legal Decisions of Interest to Bankers* to be published since the series commenced in June 1946, and it is perhaps an appropriate point to look back and take stock of what has happened in the Courts during the eight or so years concerned. It is significant that there have been very few cases involving points of pure practical

* At least up to the point where the property passes to the buyer.

banking law, and the fact that there has been only one documentary credit case, is a tribute to the careful manner in which the staffs of documentary credit departments handle the enormous volume of this type of business with which the banks now have to deal. There have been several cases dealing with moneys advanced by banks to insolvent companies and the establishment of the legal principle that a deserted wife is entitled to remain in the matrimonial home as against her husband, has had its legal repercussions on the banks. Probably the best-remembered case is *Coutts & Co.* v. *Brown-Lecky*, and the most remarkable one, *Brewer* v. *Westminster Bank Ltd.* On the trustee and executor side there has been the monumental case of *Re Diplock's Estate* and the series of cases dealing with the effect which the large capital dividend paid by Thomas Tilling Ltd. had on trusts holding investments in that company's shares.

Of the cheque cases, *Nelson* v. *Larholt* [(1947): 2 All E.R. 751, B.M.* Jan., 1948, p. 31] has provided an interesting example of trust money being recovered by the beneficiaries of the trust from the payee of a cheque drawn on the trust account. The payee, Larholt, was a bookmaker, and cheques signed :—" G. A. Potts, Executor of William Burns, dec.", were given by Potts to Larholt, who gave Potts cash in exchange. It was held that as Larholt took the cheques with notice of the trust, he could be required to refund their value to the beneficiaries, even though he took the cheques in good faith and for value. Another cheque case is *Wilson and Meeson* v. *Pickering* [(1946): 1 All E.R. 394; B.M. July, p. 39] where the Court of Appeal allowed the appeal of Wilson and Meeson, a firm of estate agents. The facts were that one of the partners in the firm handed a blank signed cheque to one of the firm's employees and instructed her to make out the cheque in favour of the Inland Revenue for £2. The employee in fact made out the cheque for £54. 4*s.* 0*d.* and inserted the name of her landlady, Mrs. Pickering as the payee. On being sued, Mrs. Pickering claimed that Wilson and Meeson were estopped from denying that the cheque was completed in accordance with their authority. This claim was not upheld by the Court of Appeal who pointed out that the cheque was crossed " not negotiable," and that accordingly the rule of estoppel in relation to negotiable instruments could not, in any event, apply to the cheque. In *Cole* v. *Milsome* [(1951): 1 All. E.R. 311; B.M. March, p. 258], the court decided that a cheque made payable to :—" Cash or order," was not a cheque because it was not payable to the order of a specified person or to bearer. Nor could the instrument be treated as being payable to bearer because " cash " was not a fictitious or non-existing person. On the facts, this was an unhappy, though no doubt correct decision, but on grounds of justice and fairness it would seem that these " cash or order " instruments should be treated on the same legal footing as cheques. The remarkable case of *Brewer* v. *Westminster Bank Ltd.* [(1952: 2 All E.R. 650; B.M. October, p. 306) has decided that where one joint holder of an account forges the signature of another joint holder, the other joint holder cannot sustain an action for a declaration that the bank is not entitled to debit the joint account with the amounts of the forged cheques. This decision is thus in direct opposition to the general rule that a banker may not debit his customer's account with cheques upon which the customer's signature has been forged. The decision was based upon the principle that the contract between the bank and the joint account holders whereby the bank would only honour cheques signed by both account holders, was a joint contract,

* References to B.M. *passim* are to *The Bankers' Magazine* articles on the relevant cases.

and not a several, nor a joint and several contract. Consequently rights under the contract vested in the account holders jointly and could only be pursued by them jointly, and as one of them could clearly not rely upon his own act of forgery, the joint account holder was also precluded from relying upon such act of forgery. Miss Brewer appealed against this decision, but the action was settled before the Court of Appeal had pronounced judgment (B.M. April, 1953, p. 352). Accordingly, the decision of the lower court is still law, although there must be a doubt as to whether it is good law.

In *Bagley* v. *Winsome* [(1952): 1 All E.R. 637; B.M. May, 1952, p. 454] the Court of Appeal has decided that a deposit account cannot be garnisheed until every condition precedent to repayment has been complied with, except a mere demand for *immediate* payment. In this case, a judgment debtor had money standing to his credit in a deposit account with a bank. In respect of the deposit the bank had issued a deposit book, and in order to withdraw moneys deposited, fourteen days notice had to be given and the book produced. The judgment debtor gave notice of withdrawal, and on the fourteenth day the judgment creditor issued a garnishee summons under Order 27 of the County Court Rules. It was held that the deposit was not a debt " owing or accruing " to the judgment debtor until the deposit book had been produced, and accordingly until then, the deposit could not be the subject of garnishee proceedings.

Of the guarantee cases, *Coutts & Co.* v. *Brown-Lecky* [(1946): 2 All. E.R. 207; B.M. Sept., 1946, p. 171] is the one that will be best remembered. Brown-Lecky was an infant, to whom Coutts & Co. granted overdraft facilities in consideration for a guarantee given by two persons of full age. Brown-Lecky failed to pay, and the bank brought this action against him and the two guarantors to recover the amount of the debt. The guarantors pleaded that the debt was void under the Infants Relief Act, 1874, and that accordingly the guarantees were void as there was nothing to guarantee. This plea was upheld by the Court. Accordingly, if banks make a practice of lending to infants against the security of a guarantee, it has become desirable to incorporate an indemnity in the guarantee.

Young v. *Sealey* [(1949): 1 All E.R. 93; B.M. March, p. 226] provided an extremely interesting example of the use of a joint account to make a testamentary gift in a manner not conforming to the provisions of the Wills Act, 1837. The deceased was a spinster, and Sealey was her nephew. Some years before her death, the deceased put certain moneys on deposit at various banks in the joint names of herself and her nephew. She herself retained control over the accounts and continued to operate them. On her death this action was brought by her executor to decide whether the balances on the joint accounts belonged to Sealey by right of survivorship, or whether they formed part of the deceased's residuary estate. It was held that as there was evidence of her intention to benefit her nephew, the moneys belonged to him absolutely. The interesting point that was raised was, however, whether or not the intended gift was void as being an attempt to make a testamentary gift otherwise than in accordance with the provisions of the Wills Act The judge was rather inclined to think that the gift was void on this ground, but " having regard to the disturbing effect which an acceptance of the argument might well have on titles already acquired," he felt that it was better that any change in the current of authority on this point should be made by an appellate court rather than

by a court of first instance. Actually no appeal was made, and the point is still, therefore, outstanding.

Two very interesting cases dealing with the effect of Czechoslovak exchange restrictions have been the House of Lords decision in *Kahler* v. *Midland Bank Ltd.* [(1949): 2 All E.R. 621; B.M. Dec., p. 438] and the similar decision in *Zivnostenska Banka* v. *Frankman* [(1950): 2 All E.R. 671; B.M. Jan., p. 37]. Kahler had in 1938 arranged for the Zivnostenska Bank, Prague, to hold for him in London, 800 shares in Brazilian Traction Light and Power Co. Ltd. Zivnostenska Bank accordingly instructed the Midland Bank to hold these shares for its account. In 1939, Kahler was compelled by the Nazis to transfer these shares to the Bohemian Discount Bank and Zivnostenska Bank instructed the Midland Bank to hold the shares for account of the Bohemian Discount Bank. In 1946, Kahler's rights to the shares were restored by the Czech authorities but as Kahler had by then ceased to be a Czech resident, the Bohemian Discount Bank was prohibited from releasing the shares to him. Kahler therefore brought this action claiming that the shares were his property and ought to be released to him. It was held that the contract of deposit was one between the Bohemian Discount Bank and Midland Bank and not one between Kahler and the Midland Bank. Accordingly Midland Bank could not release the shares without the authorisation of the Bohemian Discount Bank which authorisation could not be given by reason of the Czech Exchange Control regulations. Furthermore Kahler could not claim to have the securities delivered to him on the ground that he was the true owner, by reason of the contract of bailment existing between himself and the Bohemian Discount Bank. This contract was subject to Czech law and therefore subject, also, to Czech exchange control regulations which prohibited delivery of the shares. The *Frankman* case was somewhat different because the securities in question were deposited with the London office of Mrs. Frankman's Prague bank and not with a third-party bank. Here, again, however, it was held that the contract of deposit was one between the depositor and the bank's Prague office, and that delivery could not be made in London without the consent of the Prague office. Such consent could not be given without the consent of the Czech exchange control authorities, and as the contract of deposit was subject to Czech law, the English courts had to give effect to Czech exchange control law. Mrs. Frankman could not, therefore, recover possession of her securities.

In the realm of documentary credits, the case of *Bank Melli Iran* v. *Barclays Bank (D.C. & O.)* [(1951): Lloyd's List Reports; B.M. December, p. 484] has once again emphasised how important it is to ensure that the documents against which payment is made under a documentary credit comply implicitly with the terms of the credit, and that a description of trucks as " new, good," or " in new condition " is not the same as " new." The case also provides an example of a defence of ratification being successfully pleaded in a documentary credit case.

Re Kent and Sussex Sawmills Ltd. [(1946): 2 All E.R. 638; B.M. Feb., 1947, p. 123] provided an interesting case of an assignment of a book debt, which was void against a liquidator owing to non-registration as a charge under Section 79 of the Companies Act, 1929, and *Lloyds Bank Ltd.* v. *Brooks* [(1951): B.M., p. 453] is an example of a pass-book case, where a customer had spent moneys incorrectly shown as credits in her pass-book, and it was held that the bank could not recover the over-payments.

Lloyds Bank Ltd. v. *Oliver's Trustee* [(1953): 2 All E.R. 1443; B.M. Jan., 1954, p. 27] and *Barclays Bank Ltd.* v. *Bird* [(1954): 1 All E.R. 449; B.M. April, p. 345] are two cases resting on the newly developed legal principle that a deserted wife is entitled, as against her husband, to remain in the matrimonial home. In both cases, the houses concerned had been charged to banks. In the former case there was a legal charge, and in the latter an equitable charge, both being executed before the husband's desertion of the wife. In both cases, it was held that the bank's charges took priority over the wife's right to remain in possession.

Among the trustee and executor cases, *Re Diplock's Estate* [(1948): 2 All E.R. 318; B.M. Oct., p. 280)] is quite the most remarkable. One Caleb Diplock had died in 1936 leaving a large fortune. His will directed his executors to apply the bulk of his estate for such " charitable *or* benevolent objects " as his executors should think fit, and a distribution of some £200,000 was made to 139 charitable institutions. In 1939 the next of kin challenged the validity of the will, and ultimately the House of Lords held the will to be invalid. This series of actions then started to recover the moneys paid to the charity. The judgments are remarkable for their length and complexity—that of the Court of Appeal was over 30,000 words long—and a good deal of light was thrown on the law relating to the tracing and following of trust moneys.

The Tilling Stevens cases (*Re Sechiari; Re Kleinwort's Settlement Trusts; Re Winder's Will Trusts* [(1950): 1 All E.R. 417; (1951) 2 All E.R. 328; (1951) 2 All E.R. 362; B.M. Sept., 1951, pp. 212 6]) have not made any new law, but they have shown the anomalous results that can ensue from the rigid application of the principle that, as between tenant for life and remainderman, a capital dividend (as distinct from a return or repayment of capital) belongs to the tenant for life and not to the remainderman. Consequent upon the passing of the Transport Act, 1947, Thomas Tilling Ltd. sold such of its interests as were affected by the Act to the British Transport Commission for £24,800,000, the consideration being satisfied by the issue to the Company of British Transport 3% Guaranteed Stock, 1968–73, at a price of 101. The Company resolved to distribute this stock as a capital profits dividend to the Company's ordinary stock holders in the proportion of £5 stock for each £1 of the Company's ordinary stock. Following upon the distribution, the quoted price of the Company's ordinary stock dropped substantially. For example, in the Kleinwort case, the settlement trustees had originally invested £6,000 of capital moneys in the purchase of £2,000 Thomas Tilling stock. In due course they received £10,000 British Transport stock (which was a tax-free windfall for the persons interested in the income of the trust) leaving the settlement trust fund with £2,000 Thomas Tilling stock, the market value of which was about £2,700. This is all the more anomalous when it is borne in mind that the trustees might have sold the Thomas Tilling stock " *cum*-rights," and in that event the proceeds would have represented an accretion to the capital of the trust fund. (See *Bulkeley* v. *Stephens* [(1896) 2 Ch. 241]).

To sum up, while the last eight years may not have produced any case of major importance within the field covered by this series of articles, there have been many cases of substantial interest. New ground has been broken in one or two instances, but there are still anomalies to be resolved. Perhaps the next eight years will see some progress in this direction.

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December, 1954

Recent Legal Decisions of Interest to Bankers

By C. B. Drover

WINDING UP OF FOREIGN BANK

Re BANQUE DES MARCHANDS DE MOSCOU (KOUPETSCHESKY) (No. 2)
(1954: 2 All E.R. 746; 1 W.L.R. 1108; 98 Sol. J. 557)

The Banque des Marchands de Moscou (Koupetschesky), which is referred to for convenience as "the Russian Bank" was incorporated in Russia in 1866. It never had a branch or establishment in England, but at the material time it maintained a current account with Midland Bank, Ltd., London, which in December, 1917, was in credit. On December 15, 1917, the Russian Bank was nationalised by decree of the Soviet Government, and it was dissolved by Russian decree, in or about January, 1918.

In 1932, an order was made by the English court for the winding up of the Russian Bank, under Section 338 of the Companies Act, 1929 (now Section 316 of the Companies Act, 1948), and the liquidator has since then got in substantial assets.

In the same year one A. K. Ouchkoff, a Russian domiciled in France, lodged a proof in the winding up for £12,000. In 1952, the liquidator rejected the proof, and Ouchkoff, having died, his widow and administratrix took out this summons asking that the liquidator be directed to allow the proof.

The circumstances in which the debt arose were these. Upon the outbreak of the Russian revolution, Ouchkoff and his wife decided to escape from Russia. He accordingly delivered a quantity of gold to the Russian Bank in Moscow, and received in return two orders, dated December 16, 1917, addressed to Midland Bank Ltd. instructing the latter to pay £10,000 and £2,000 respectively to Ouchkoff. The claimant also held a third document dated December 17, 1917, written in Russian, an English translation of which reads as follows:—

> "The Board of the Moscow Merchants Bank hereby certifies that out of the foreign funds belonging to the bank which are deposited abroad £2,000 belongs to Alexei Konstantinovitch Ouchkoff. Instructions to pay this amount to him or to his order will be made by the bank immediately on resumption of normal communications between the bank and its foreign correspondents."

On the strength of these documents the claimant contended that she was entitled to prove as a creditor in the liquidation, either on the ground that all debts, wherever situate, were provable in an English liquidation in respect of English assets only, or alternatively on the ground that it was the Russian bank's intention that the debt should be met out of the English assets.

It was HELD by Roxburgh, J., that although Section 26, of the 1929 Act (Section 316 of the 1948 Act), apparently makes *all* debts admissible to proof in a winding up of this type, the fact was that the present debt was recoverable only in Russia and its *situs* was there. The consequence was that the debt was destroyed at the moment of the dissolution of the Russian bank in Russia if not before. Accordingly there was no debt in respect of which proof could be lodged and the liquidator had done right in rejecting the proof.

Actually the judge held that the transaction whereby Ouchkoff sought to take money out of Russia was illegal under Russian exchange control regulations as then existing, and it was only on the assumption that this finding was wrong, that he went on to consider whether the debt was an English debt or a Russian debt.

Section 338 of the Companies Act, 1929 (now Section 399 of the 1948 Act) makes provision for the winding up of an unregistered company, and foreign companies can be wound up which have an office and assets here, even though there is or has been a winding up in another country. The present case, however, provides an example of a foreign company being wound up here, merely on the strength of there being assets here, the company itself having long since ceased to exist in the country in which it was formed.

Section 261 of the 1929 Act (Section 316 of the 1948 Act) provides that *all* debts shall be admissible to proof, and on its face this would appear to include Russian debts, but there would be something incongruous if Russian debts could prove against English assets, seeing that no Russian assets are available. As Roxburgh, J., put it in the case under review (2 All E.R., p. 750) :—

> " After all, what are being administered in this country are not all the assets of the Russian bank, but assets on which the liquidator can lay his hands, and which, broadly speaking, are English assets ; and, therefore, it would be surprising if debts which could be, broadly speaking, described as English debts, should find themselves up against the competition of Russian debts in respect of assets which were solely English assets and, of necessity, excluded the Russian assets."

If, on the other hand, the debt in question were locally situate in Russia, " then the dissolution of the Russian bank removed it altogether from the category of debts and liabilities provable, because it was not a debt at all at the time when the proof was sought to be admitted." If, on the other hand, the debt were not locally situate in Russia, then the Russian decrees would have no extra-territorial effect, because the English law will not recognise a foreign confiscatory law except in relation to the subjects of that state. Accordingly, the debt would then remain provable in an English liquidation.

In order to apply this principle, it is necessary to ascertain in what locality English law deems a simple contract debt to be situate. The general rule is that a debt is deemed to be situate where the debtor resides, the reason being that the place of residence of the debtor was nearly always the place where the debt was recoverable. In the present case, the Russian bank resided only in Russia, and accordingly the *situs* of the claimants' debt was Russia. That being so, the debt was extinguished at the latest, at the moment of the dissolution of the Russian bank in Russia, and there was nothing left in respect of which a proof could be lodged in the liquidation.

It is interesting to consider what would be the position if a resident English national were to have a claim against the Russian bank. Suppose, for example, that the London office of X Bank Ltd., an English bank, had granted an overdraft to the Russian bank, and that such overdraft remained when the Russian bank was dissolved. Leaving aside the question of whether or not the debt was statute-barred, it is interesting to consider whether or not the proof of X Bank Ltd. might be admitted. On the test given above, the *situs* of the debt must be Russia. Presumably, however, the English courts would not in that case regard the debt as destroyed by the Russian nationalisation decrees.

The English courts will not, as a rule, give effect to a foreign confiscatory law, though in general, " they will not enquire into the legality of acts done by a recognised foreign government against, or in relation to its own subjects, in respect of property situate in its own territory." On that footing, the debt would no doubt, not be regarded as extinguished, and proof would presumably be admitted. Indeed, any other result would give rise to the absurdity that as the Russian bank had no office here, and resided only in Russia, all its debts had a Russian *situs*, and none would be provable in the English liquidation. If, however, the broad principle is that English assets ought to be available for English creditors, it would be interesting to see what the English courts would do in the case of, say, a creditor who was a resident French national when he became a creditor of the Russian bank, and in particular whether or not the debt would be regarded as extinguished by the Russian legislation.

GUARANTEE—ENFORCEMENT AGAINST ESTATE OF DECEASED PERSON

Re DEANS (DECEASED), WESTMINSTER BANK LTD. *v.* OFFICIAL SOLICITOR
(1954 : 1 All E.R. 496 ; 1 W.L.R. ; 98 Sol. J. 110)

In 1948 and 1949, William Deans guaranteed the overdraft with Westminster Bank Ltd., of one Gilbert Loughlin, and as collateral security deposited with the bank £300 " B " shares in Barclays Bank Ltd., £175 10*s*. 3% British Transport Stock and £50 2½% defence bonds. William Deans died in 1951. The sole executrix and beneficiary under his will had died in his lifetime and no relative could be traced. Early in 1952 the bank demanded payment of Gilbert Loughlin of the overdraft amounting to £2,457. 16*s*. 6*d*., but he thereupon went to Canada and was never seen again. No grant of representation was taken out in respect of William Deans' estate.

The bank then took out this summons for a declaration that the above securities were charged with the payment of moneys to the bank, and for an order that the Official Solicitor should be appointed to represent the estate under Order 16, rule 46 of the Rules of the Supreme Court. This rule reads as follows :—

> " If in any cause, matter or other proceeding it shall appear to the Court or a Judge that any deceased person who was interested in the matter in question has no legal personal representative, the Court or Judge may proceed in the absence of any person representing the estate of the deceased person, or may appoint some person to represent his estate for all the purposes of the cause, matter, or other proceeding on such notice to such persons (if any) as the Court or Judge shall think fit, either specially or generally by public advertisement, and the order so made, and any order consequent thereon, shall bind the estate of the deceased person in the same manner in every respect as if a duly constituted legal personal representative of the deceased had been a party to the cause, matter or proceeding."

This course of proceeding was followed by the bank's advisers because they wished to avoid the expense and complication of an administration action in the Chancery Division if they could attain their object by some shorter and less expensive means.

It was pointed out by the judge, however, that an order made under the above rule could not achieve the bank's object, since it was clear from the terms of the rule that such an order would only bind the estate of the deceased person and would not bind such persons as the Bank of England and the Postmaster-General.

The summons was accordingly amended asking for a declaration that the above-mentioned securities were vested in a trustee within the meaning of Section 51 (1) (*v*) of

the Trustee Act, 1925, and a consequent order that the securities should vest in the Official Solicitor.

Section 51 (1) (v) of the Trustee Act reads as follows :—

> " (1) In any of the following cases, namely, . . . (v) Where stock or a thing in action is vested in a trustee whether by way of mortgage or otherwise and it appears to the court to be expedient; the court may make an order vesting the right to transfer or call for a transfer of stock, or to receive the dividends or income thereof, or to sue for or recover the thing in action, in any such person as the court may appoint."

In order to obtain this declaration, the bank relied on Section 9 of the Administration of Estates Act, 1925, reading as follows :—

> " Where a person dies intestate, his real and personal estate, until administration is granted in respect thereof, shall vest in the Probate Judge in the same manner and to the same extent as formerly in the case of personal estate it vested in the ordinary."

The judge held, however, that the senior judge of the Probate Division could not be said to be a trustee within the meaning of that word for any of the Trustee Act, 1925. " He has no duties to perform," he said. " No obligations fall upon him. . . . The whole operation of that section is that where the condition is fulfilled of a person dying intestate, his estate, real and personal, vests in the senior judge of the Probate Division, and that property remains vested in him until the second condition is fulfilled, namely, that administration is granted in respect of that property. That appears to me to be plain language and to provide the only method by which the senior judge of the Probate Division can be divested of the property which vests in him under the section."

The judge accordingly refused to make the declaration and order asked for, pointing out as he did so, that the bank could obtain a grant of representation in respect of the deceased's estate, and proceed under that.

Book Reviews

Wages. By SIR DENNIS H. ROBERTSON. (London: Athlone Press, University of London, 1954. Pp. 41. 3*s*.)

Wages was the subject happily selected by Sir Dennis Robertson for his Stamp Memorial Lecture on November 9. No on could be better qualified to meet the need for a clear exposition of the economic principles involved and their bearing on wage policy. He has infused life into what might have been a dull subject by dramatising it.

The recent Court of Inquiry, to which the wage dispute in the engineering industry was referred, recommended the appointment of an " authoritative and impartial body " to advise on " the wider implications " of the questions which had been raised. Sir Dennis Robertson imagines a nightmare, in which he is a member of the proposed body, and is called upon to instruct it. The retired Admiral whom he has called into being as chairman deserves a permanent place in economic discourse as a welcome substitute for the man in the street.

His exposition, partly in dialogue form, is a model of lucidity and concise argument.

Needless to say, it is impossible to cover the ground in one lecture. He has contrived to steer clear of controversies about profits and about the foreign exchanges. But

even at that level of abstraction the pamphlet in which the text of his lecture is now published might be very helpful towards forming an instructed public opinion on an elusive and baffling subject.

Since giving his lecture Sir Dennis Robertson has made a correction in the statistics appended to it. He had omitted to make allowance for certain alterations in the basis of the official statistics between 1938 and 1953. The revised comparison is given in a letter which appeared in *The Financial Times* on November 23, 1954, viz :

Wages as per cent. of	*1938*	*1953*	*Increase per cent.*
1. Personal income from work and property	41·0	47·9	17
2. All personal income	38·8	44·3	14
3. All private income	36·5	39·2	7
4. Gross national product	37·4	39·0	4
5. Net national income	39 0	41·8	7
6. Home-produced net national income	40·5	42·4	5

Sir Dennis in his letter makes a frank apology to his hearers and readers for errors which those familiar with the intricacies of the National Income blue books will not by any means follow him in describing as " inexcusable."

The correction diminishes the force of his argument on page 12 but does not otherwise mortify it.

London. R. G. HAWTREY.

Germany's Comeback in the World Market. By LUDWIG ERHARD. With the Assistance of FREIHERR VON MALTZAN. Edited by HERBERT GROSS. Translated by W. H. JOHNSTON. (London: Allen & Unwin, 1954. Pp. 276. 21*s*.)

THIS history of West Germany's economic recovery is no doubt a work of major importance, as the opinions expressed are those of the present-day economic leaders in Federal Germany. Its author, Professor Dr. Ludwig Erhard, the West German Minister for Economic Affairs, was assisted by Dr. von Maltzan, Head of the Trade Policy Section of the West German Foreign Office, and the book was edited by Dr. Herbert Gross. It seems, however, that other senior officials have also contributed. The translation into English by Mr. W. H. Johnston is admirable.

The main theme running throughout the book is a plea for free trade, to be achieved by economic co-operation between *all* nations and gradual removal of trade restrictions. Many pages are devoted to showing how West Germany has benefited by every step towards a freer market policy. " Unconditional, most-favoured-nation treatment, convertible currencies, the abandonment of quotas and of artificial rates of exchange—these are the theoretical and practical foundations of a world trade policy required by a highly specialised industrial and exporting country like Western Germany " (p. 17). The ideology of Federal Germany's new economic leaders is perhaps best expressed in Professor Erhard's introduction where he states that " an understanding of the nature of foreign trade and of international economic relations forms the real crown of an economic education. This understanding can form the root of a toleration which appreciates the needs of other parties ; toleration leading to a genuine balance of interests. An autarkic or nationalistic policy aims at narrow advantages at the expense of other nations, and leads to a dead end, whereas a policy of free world trade identifies the national interests with those of a multiplicity of other countries. It does not abuse

its machinery in order to lock others out, but employs it as a key to open many gates" (pp. 16–17).

Thus Professor Erhard's economic principles are not realisable without mutual understanding. This book could therefore have done much to remove the remainder of distrust against Germany, if only he had abstained from criticising the policies pursued by the Allies in Federal Germany—especially between 1945–48—without at the same time referring to the enormous economic difficulties with which most European countries had to struggle themselves after the war. These policies are no doubt open to criticism when looked at from the German angle—yet they have to be viewed in the light of the absolute chaos which the Allies had to take over in the occupied territories. And one should perhaps not quite forget—in this context—the part played by Germany during the war in countries then occupied by her and the destruction caused by this war. A statement, for instance, according to which the contribution paid by British taxpayers to keep the British Zone going "could be supported so long as it eliminated German competition" is rather disturbing. However, it would be unfair in a review of this book, to concentrate on these points, as it is stated on more than one occasion that conditions for normal foreign trade did not exist in any of the three Zones at that time and that many attempts by the Allied Military Authorities to increase German exports were bound to fail. "... in 1946 the economic conditions for large-scale trade were wanting, however good the organisation might be. A workable market economy did not exist. Imports were drawn into a vacuum, exports were frustrated..." (p. 62). This indicates clearly Professor Erhard's conviction that Germans themselves could not have done much to bring about economic recovery before the restoration of the value of their currency in June 1948 made normal trade transactions possible. The writers of this book also admit that without the generous dollar aid from the United States, Federal Germany would not have been able to achieve such rapid revival of her economy. (It is regrettable that chapter V on American Economic Aid was not contained in the first edition of the original German text.)

Interesting are the parts devoted to the Federal Republic's economic future. The establishment of convertibility between the E.P.U. and the dollar area is regarded as being of major importance as this would enable Germany to finance her dollar deficit by means of her export surpluses with E.P.U. countries. Moreover, to increase exports, encouragement is given by an even more liberal import policy rather than by granting longer export credits, an idea which will no doubt find approval in many quarters.

The book seems to prove that West Germany was right in pursuing a liberal import policy which helped to increase exports and was thereby of fundamental importance for Germany's economic recovery. Credit is due in this connection to Professor Erhard's expert advisers, the members of the Economic Advisory Committee of the Federal Ministry of Economics, the Head of which is the eminent German Economist Professor Dr. Erwin von Beckerath.

It is a pity that such a valuable and significant book should contain a number of statements which many people will consider prejudiced and nationalistic. It must be hoped that these blemishes will not discourage and irritate foreign readers to an extent preventing them from appreciating those parts which show clearly the determination of Professor Erhard and his colleagues to help the improvement of world economic conditions by adopting sound economic principles in Western Germany.

London. S. H. FROWEIN.

December, 1954

100 Years Ago

From *The Bankers' Magazine* of December, 1854

THE GENERAL PROSPECTS OF THE WAR

The events of the war during the past month, exciting as they are, and gratifying to the national vanity, in so far as they prove that long years of peace have not, in any way, diminished the proverbial courage of the British race, scarcely afford ground for hoping that the victories which have been won will be attended with immediate results, in humbling the pride of the enemy, and compelling him to sue for peace. The accounts which have been received all tend to show that the Czar is, after successive defeats, really stronger at this moment in the Crimea (where, for all practical purposes, the war may be said to be at present confined) than he was in the early part of September, when the Allies had effected their debarkation at Eupatoria, and certainly much more so than he was on the 20th of that month, when Menschikoff lost the battle of the Alma, and retreated upon Balchiserai.

. . . But the argument fails altogether, if the reports we have received are to be relied upon; for we are therein told that, though the country is the enemy's, the people generally are most favourably disposed to the invaders; that they readily furnish supplies of all kinds, and even evince a disposition to aid personally in the operations of the invading army. . . .

At every point of his wide-spread dominions, the Czar appears to have availed himself with energy and skill of the delay granted to him by the Western powers, before they declared war, in argumenting his strength, and preparing for the event. In the ports of the White Sea, and in the far-distant settlements of Kamschatka, we find that troops have been collected, and every precaution has been taken against attack; and, accordingly, we have, in the news of last week, the announcement of the failure of an allied squadron in an attempt to destroy the two Russian frigates, the *Aurora* and the *Dwina*, that had taken refuge behind the batteries of the fortress of Petropaulovski, in the extreme north of the Pacific, though they succeeded in inflicting no inconsiderable loss upon the enemy. All this goes to prove that those who had flattered themselves with the idea that the war would be but the affair of a month or two, will be egregiously mistaken. From everything we now see to the contrary, it may be protracted for years . . .

Meanwhile, it were insanity to close the eyes to the fact, that the existing aspect of affairs entails upon the country evils of a formidable character. In addition to the heavy drain upon our pockets, which is inseparable from a state of war, we have to lament the still more serious loss arising from the depression of trade which the uncertainty in which we are involved necessarily occasions. Already, we see speculation at a stand-still—ordinary and legitimate trade operations crippled—the bankrupt list increasing; and that there will be, ere long, a heavy drain of the precious metals for payment of the troops, as well as for the purchase of grain, may be prophesied with certainty. Every man who looks at the matter calmly and rationally, unbiassed by excitement on the one hand, or needless alarm on the other, will feel that we have entered upon a period, be it longer, or be it shorter, of great anxiety, and very serious monetary and commercial difficulty. . . .

EDUCATIONAL SECTION

Monthly Problem

THE following problem has been submitted by a Barclays Bank reader in Crewe, to whom our usual prize of one guinea has been sent. A further prize of one guinea will be awarded to the reader who submits the most satisfactory solution to reach the Editor, *The Bankers' Magazine*, 85 & 86, London Wall, E.C.2, not later than December 9, 1954.

" X, an established customer of Southtown Bank, pays into his private account a crossed cheque for £1,200 marked ' Not Negotiable ' and drawn in his favour as executor of the late A.B.C. A photostatic copy of the grant of probate of the will of the late A.B.C. has been exhibited to the bank evidencing that X is the sole executor, but no copy of the will was attached. In response to enquiry raised by the cashier of Southtown Bank, X states that he is the sole beneficiary of the estate as well as sole executor, and the cheque is accordingly accepted for the credit of his private account without further enquiry.

It later transpires that X is not the sole beneficiary and he has in fact misappropriated the funds of the estate, whose real beneficiaries bring action against the bank to recover the amount of the cheque. Can they succeed and, if so, upon what grounds ? "

NOVEMBER PROBLEM

THIS problem proved popular to readers and a record number of replies were received by the Editor. The best answer came from the pen of a Midland Bank reader in London, who paid due attention to all the features set out below in our solution.

Readers will recall that the problem read as follows :—

" Southtown Bank grants advances to X and Y on joint account secured by a life policy for £500 on the life of X and in his favour, and a life policy for £500 on the life of, and in favour of, Y. Each policy has been charged to the bank by the respective owner by separate legal mortgage. In addition, both X and Y have contracted to be jointly and severally responsible for their indebtedness on joint account.

X dies when the joint account is overdrawn £400, whereupon Y immediately pays off the indebtedness to the bank and obtains the release of the life policy which is in his favour. The executors of X request the delivery to them of the policy on the life of and in favour of the deceased, but Y claims that he is entitled to collect this policy and instructs the bank not to release it to the executors. What is the legal position and what attitude would you advise Southdown Bank to adopt ? "

In the first place it must be emphasised that X and Y were severally liable for the indebtedness on the joint account, and Y, the survivor, is not therefore entitled to take over security deposited by the late Mr. X merely because he has liquidated the indebtedness on the joint account. Upon the death of X, his assets and liabilities vest in his

personal representatives, who are fully entitled to the proceeds of the life policy and liable to X for any amount which can be proved to be due to him in respect of the original indebtedness on the joint account.

From the practical standpoint, Southtown Bank cannot release the policy on the life of X to his executors until probate of the will in their favour has been produced to the bank as evidence of their right to give a valid discharge for the policy. On the other hand, the bank, as mortgagee, as a matter of courtesy might indicate its willingness to collect the proceeds of the policy on behalf of the executors, placing them to the credit of a suspense account until such time as probate has been obtained. The policy cannot be released to Y because he has no legal right to it and is unable to give the bank a valid discharge. The position should be explained to Y, suggesting that it is up to him to file with the executors any claim he may have against the estate of X in respect of the joint account indebtedness. Should Y be unreasonable in his attitude and persist in his right to the policy, it should be retained by the bank until directions can be obtained from the Court for its proper release.

Banker and Customer

Conditional Orders

Nowadays a banker daily handles a large number of instruments which are drawn ostensibly in cheque form, but embody a form of receipt for completion by the payee. These may, or may not, be cheques according to whether payment is conditional upon the completion of the receipt. Legally, everything depends upon whether the instruction concerning the receipt is addressed to the paying banker or is merely expressed to be a request from the drawer to the payee and not a condition of payment. In practice, there is little material difference because in any event the paying banker will not honour the order unless the receipt has been duly completed. On the other hand, the true nature of the document is of vital importance to both the paying and collecting banker if the need arises to seek statutory protection against conversion. Section 3 of the Bills of Exchange Act requires a cheque to be an unconditional order in writing. Any document containing a condition attaching to the order to pay cannot be a cheque, and Sections 60, 80 and 82 of the Act will not therefore be available to the banker paying or collecting such an instrument. Some limited protection may be available elsewhere, but why should the banker accept the risks attendant upon handling conditional orders if customers can be prevailed upon to use cheques? It follows that when a customer wishes to issue orders with a receipt form it is incumbent upon the banker to edit the wording of the instrument to ensure that it remains a cheque within the meaning of the Bills of Exchange Act. The problem can now be explored in detail from both the legal and practical standpoint.

A valuable customer may decide, perhaps at the instigation of his auditors, to introduce a cheque form calling for the receipt of the payee. It is a convenient, speedy

and sure means of obtaining a receipt for payments made to creditors who may otherwise just collect the proceeds of the cheque and neglect to send a formal receipt direct to the payer for scrutiny by his auditors. The onus of obtaining the receipt is thus passed on to the banker, who also automatically shoulders the responsibility of filing these receipts and delivering them to the customer at periodic intervals for production to the auditors. Moreover, some payees may attach their own adhesive receipt forms to the cheques, thereby complicating the problem of sorting in the bank clearings, and introducing the risk that they may be detached before presentation. Further trouble is caused by the failure of the payee to stamp the receipt. For these practical reasons, plus the legal doubts discussed later, any extension of the system is now discouraged as far as possible, but it is already well established, particularly for customers such as local authorities and insurance companies who daily make a large number of payments to a variety of people, many of whom are private persons with no receipt books or forms.

The following examples show how essential it is for the paying bank to approve the wording of such instruments before permitting a customer to introduce them.

A form of cheque with a receipt on the face or back of it for completion by the payee drawn " Pay . . . or order . . . on the receipt being duly stamped, signed and dated " is clearly a conditional order. The instruction concerning the completion of the receipt is addressed to the paying banker and payment is conditional upon the fulfilment of the instruction. The order is, therefore, not a cheque and the paying banker has no protection from Section 60 of the Bills of Exchange Act if the payee's signature is forged. Moreover, the order is not negotiable [*Bavins Junr. & Sims* v. *London & South Western Bank* (1899) 81 L.T. 855—see later] and may not even be looked upon as transferable. A customer should, therefore, be discouraged from issuing an order drawn in such terms.

An alternative method which is just as effective from the practical standpoint and much more acceptable legally to the banker, is to omit any reference in the cheque itself to the receipt form printed on the back or face of it but to add the following words beneath the receipt :—" *This receipt must be stamped, signed and dated,*" or " *The receipt at the back hereof must be signed, which signature will be accepted as an endorsement of the cheque.*" It was decided in *Nathan* v. *Odgens Ltd.* (1905) 93 L.T. 553, that such words were a direction to the payee and not to the banker and that consequently the document was an unconditional order and a cheque within the Bills of Exchange Act. This style should therefore be adopted wherever a customer insists upon introducing receipt forms, but the prudent banker will nevertheless obtain precise instructions as to whether the cheque is to be paid or not if it is presented bearing the endorsement of the payee but with the receipt unsigned. Usually an incomplete receipt is unacceptable and the paying banker is obliged to follow his customer's wishes and return the order to the collecting banker for due completion of the receipt. In other words, although the instrument is unconditional in its terms, payment is strictly subject to completion of the receipt.

Another complication arises from the words " *this receipt will be accepted as an endorsement* " or " *this receipt must be signed. No further endorsement is required,*" because it is doubtful in law whether one signature can serve the dual purpose of a receipt and a valid endorsement. . In the opinion of the late Sir John Paget " there is no legal

authority that endorsement can be effected by a signature which concurrently fulfils another end. The *animus indorsandi* can hardly be predicated in such case. The idea seems opposed to Section 32." The point has yet to be decided in the Courts.

The Position of the Paying Banker

When called upon to pay such orders embodying receipts the banker is obviously in a delicate position. If the order is unconditional, the banker on whom the order is drawn will be protected against the consequences of a forged endorsement by Section 60 of the Bills of Exchange Act providing payment is made in good faith and in the ordinary course of business, but doubt may arise as to whether the signature on the receipt can also be a valid endorsement. Payment of a cheque bearing an incomplete or irregular discharge would clearly not be payment in the ordinary course of business. If the order is conditional, it is quite outside the Bills of Exchange Act, but some relief *may* be found elsewhere. An *uncrossed* order with a receipt *might* be brought within the protection of Section 19 of the Stamp Act, 1953, which applies to " any draft or order drawn upon a banker for a sum of money *payable to order on demand*," but where payment is conditional upon completion of the receipt, it is doubtful whether the instrument is in fact payable on demand. A *crossed* order may likewise come within the protection of Section 17 of the Revenue Act, 1883, which provides that " Sections 76 to 82 both inclusive of the Bills of Exchange Act, 1882, and Section 25 of the Forgery Act, 1861, shall extend to any document issued by a customer of any banker, and intended to enable any person or body corporate to obtain payment from such banker of the sum mentioned in such document, and shall so extend in like manner as if the document were a cheque. *Provided that nothing in this Act shall be deemed to render any such document a negotiable instrument*." These final words limit the protection because " negotiable " here is equivalent to " transferable " and payment of an order bearing evidence of transfer to a third party would vitiate the protection on the grounds of negligence.

Practical Solution

To overcome the difficulties outlined above, the banker should in practice obtain from the customer a clear mandate and indemnity to cover the payment of orders with receipts embodied therein. *The mandate* should state precisely that the orders are to be dishonoured unless the receipt has been completed by the payee and is properly stamped. Such instructions might even acknowledge that " per pro " signatures of personal payees may be accepted on the receipt. In the absence of these instructions, the use of special orders with receipts printed thereon implies an agreement with the bank that payment is subject to the signing of the receipt, but leaves the precise responsibility of the banker to the customer in doubt. Far better to obtain detailed instructions which, if they are accepted by the banker, have to be closely followed when paying or dishonouring such documents. *The indemnity* will provide that the bank is to have exactly the same protection and rights as though the documents came within the Bills of Exchange Act and as though the signatures on the receipts were endorsements purporting to be made by the stated payees. It is now plain that the use of these orders with receipt forms has to be restricted to undoubted customers to enable the banker to rely upon the indemnity.

December, 1954

The Collecting Banker

When collecting a *conditional order* for the account of a customer, the banker accepts the risk that there may be no statutory protection available if it transpires that the customer has no title to the proceeds. In the case of an uncrossed order with a receipt, there is no protection in any event, but a crossed conditional order may be within Section 17 of the Revenue Act, 1883 (quoted fully above), always providing it bears no evidence of transfer. In other words, this protection will be available only where the crossed order is collected ostensibly for the account of the named payee. The practical risk of conversion in such circumstances is obviously remote. Strictly, therefore, a banker should not collect a conditional order for an account other than that of the named payee unless the third party customer is of undoubted standing. If the crossed order with the receipt is unconditional, Section 82 of the Bills of Exchange Act will be available.

In *Bavins Junr. & Sons* v. *London & South Western Bank* (1899) 81 L.T. 655, the bank collected a stolen crossed instrument drawn on the Union Bank of London Ltd., as follows : " Pay to J. Bavins Junr. and Sons the sum of sixty nine pounds seven shillings, provided the receipt form at the foot hereof is duly signed stamped and dated." The receipt and the endorsement were forged by some unknown party and action was brought against the bank by the payees for damages for conversion. The bank pleaded that the document was a cheque and that it had collected the proceeds for a customer in good faith and without negligence within Section 82 of the Bills of Exchange Act 1882, but it was held that, as payment was conditional upon completion of the receipt the document was not a cheque, and Section 82 did not apply. Upon appeal the bank sought refuge in Section 17 of the Revenue Act, 1883, but it was then found that it had been negligent in accepting an irregular endorsement and could not rely upon this statutory defence, which was otherwise available.

The troublesome and most unsatisfactory nature from the banking standpoint of these documents which call for the completion of a receipt by the payee is thus clear. Their use should not be encouraged.

Orders on the Treasurer of a Local Authority

Brief mention can conveniently be made here of orders drawn by a local authority on its treasurer, who may occasionally be the manager of the branch of the bank where the account of the local authority is kept. This type of order is gradually disappearing, but there are still some local authorities who appoint the manager of a bank to be their treasurer and issue orders addressed to the manager at the bank. It might be contended that such documents, being drawn on the treasurer and not on a bank, cannot be cheques within the scope of the Bills of Exchange Act, 1882. If this view is accepted, a banker collecting an order and the treasurer who pays it can have no statutory protection against the risks of conversion. The order is outside the provisions of the Bills of Exchange Act and, as it is neither drawn on a banker nor issued by a customer of a banker, Section 19 of the Stamp Act, 1853, and Section 17 of the Revenue Act, 1883, cannot be prayed in aid.

The question arose in *Halifax Union* v. *Wheelwright* (1875) L.R. 10 Ex. 183, where Wheelwright, a bank manager, was treasurer to the guardians of the Halifax Union.

The regulations of the Union provided that orders for payments in excess of £5 were to be drawn by the guardians upon the treasurer of the Union. Actually, these orders had to be signed by the presiding chairman and two other guardians and countersigned by the clerk. An employee of the guardians fraudulently drew a number of orders in such fashion that it was possible for him to increase their amounts after they had been properly signed by the authorised officers. After signature, he increased the figures, forged the endorsements of the named payees, and obtained cash for them from the bank. The guardians sued the bank manager to recover the moneys so paid away, but it was decided that the payment of the excess in each case was due solely to the carelessness of the officers of the Union in signing orders prepared in such way for their signature. The question was raised as to whether the bank manager could claim the protection of the Bills of Exchange Act and the following extract from the judgment of Baron Cleesby is of interest :—

" Two arguments were addressed to us upon this part of the case. First, it was said that, taking that statute with several other statutes on the same subject, the word ' bankers ' was not to be restricted to persons regularly engaged in the business of banking but that any person who receives the money of another into his charge, and, according to the course of business between them, pays it out by having drafts drawn upon him payable to order, ought to be considered a banker within that enactment. We cannot accede to that argument. We think the legislature had reference to a particular class, viz., persons carrying on the business of bankers, and conferred upon them a great privilege. Such a privilege can only be claimed by the clearest language. A confidence might be well placed in the integrity and character of some persons, which would not belong to *any* person entrusted with money.

" The other ground taken deserves more consideration. It was contended that all the facts of the case taken together showed that the account of the guardians ought to be regarded as a banker's account kept by them with the Halifax Bank. The manner in which the orders were drawn, not being drawn upon the bank but the Treasurer, who was manager of the bank, was relied upon, and no doubt with some reason, to show that there was not a banking account between the guardians and the bank. And if there was no other evidence on this part of the case, it would be conclusive.

" But it appears that the course of business was for money to be paid to the credit of the plaintiffs across the counter. It further appears that for some time the plaintiffs' account was kept in a pass-book in the usual manner, and that afterwards it was kept in a treasurer's book in the prescribed form. It seems clear that, until the change, the bankers were the bankers of the plaintiffs ; and, though the statement is not so full as it might have been, the change was not for the purpose of altering the relation between the plaintiffs and the bank, but to comply with the rules as regards the treasurer. And this conclusion is fully warranted by the statement, from which it appears that unquestionably in point of fact the guardians had for their own benefit an account of some sort with the bank, and the money was by consent of both parties regarded as theirs, and the plaintiffs received considerable sums of money from the bank as interest for their money. It was, therefore, a banker's account.

" But it was forcibly argued that, according to the poor-law regulations, this could not be. The guardians are to pay to the treasurer, and the treasurer ought to have

had his own account with the bankers. The answer to this seems to be that the guardians chose to make use of a manager as treasurer, and in that way have the benefit of an account at the bank. We must upon the question before us, deal with the facts as they are, not as they ought to have been.

"It follows that the plaintiffs having chosen to keep and have the benefit of a banker's account, must take it with its incidents, and one of those is, that the payment of a genuine cheque with a forged endorsement is a discharge.

"It may be said that, though the bankers are discharged as against the plaintiffs, still the treasurer is not discharged, because he has bound himself to an account for what he receives. But the proper answer to this seems to be that there was in consequence of the manner in which the plaintiffs, who were the masters, chose to have the account kept, no receipt except by the bankers, and the defendant could not help himself; he can only, therefore, be regarded as receiving subject to the consequences of the manner of receiving.

"It may also further be said, that if the account must be regarded as the account of the treasurer with the bank, still it was an account kept by him with this bank by the order of the plaintiffs, and they ought not, therefore, to make a claim which he could not have enforced against the bank.

"The case is one of difficulty, in consequence of the parties having departed from the proper course; but we think the proper conclusion is, that as the only receipt by the defendant was the receipt by the bankers, under the circumstances stated in the case, he cannot be held liable when they, without any act or default on his part, are discharged."

Thus the Court decided that *in the particular circumstances* of this case the Union had regarded the treasurer's account as its own banking account, and the bank and its manager were therefore entitled to the protection of Section 19 of the Stamp Act, 1853. In other circumstances an order upon a personal treasurer may not be deemed to be within the Bills of Exchange Act. Some support may, however, be found for the bank if a resolution is obtained from the local authority requiring the treasurer to keep his account at a stated bank. Incidentally, in *Guardians of St. John Hampstead* v. *Barclays Bank Ltd.* (1923) 39 T.L.R. 229, this type of order was assumed for the purpose of the Court to be a cheque within the Bills of Exchange Act, and no exception was taken to the fact that the order had been crossed.

Whatever legal opinion may be to-day on these orders, the fact remains that they are unnecessary and unsatisfactory additions to the large number of analogous instruments which circulate freely through banking channels. Moreover, these orders often include a form of receipt to be completed by the payee. If arrangements cannot be made for the local authority to open an account in its own name upon which the treasurer and/or other appointed employee officers of the authority may draw proper cheques, every effort should be made to obtain a complete indemnity from the authority against the consequences of the payment of an order bearing a forged endorsement. It is not part of the duty of a bank manager to act as honorary treasurer to a local authority and thereby to accept all the onerous responsibilities of such office. Competition may demand that an old established system has to be supported for the time being, but

gradually the advantages of an account in the name of the authority, operated by its appointed employees, using cheques instead of orders of doubtful parentage, will be universally recognised. This *panacea* may soon be achieved.

(Next month the problems peculiar to the collection and payment of dividend and interest warrants will be discussed, and reference made to the risks entailed in collecting the proceeds of postal orders and money orders.)

The Lending Banker

Balance Sheets

(Continued)

The Floating Assets

For our purpose, a floating asset has been defined as one which is acquired by any business in order that it may be converted into cash in the course of the normal trading cycle. In the case of a temporary trade advance, the bank debt will usually be repaid from the floating assets as they are turned over in the course of business. In the event of failure of the business, the floating assets will generally be easier to realise or collect than the fixed assets, but when cash is short they will perhaps be much reduced in total before the final collapse. The proceeds obtained from sales during the final trading period, or from forced realisations, will usually be used to meet pressing creditors. Their importance naturally varies according to the type of business under review, but they will normally command closer attention from the lending banker than the fixed assets. The chief points of interest and the principles involved in considering such assets are outlined below.

General Principles—Stock

The first floating asset is common to all balance sheets of trading customers and must be subject to many banking tests. How is it valued and what does the item include? It is not the auditors' duty to take stock or to verify its value, and there is rarely any independent outside check of the item as it appears in the trading account and balance sheet. Whilst the auditor may perhaps advise upon the best method of valuation, he cannot be expected to make a physical check of any inventory. Stocktaking is a matter for the staff of the business who will therefore calculate its value according to a given formula. Some stocks are taken by specialists. For example, it needs considerable experience to take stock in a hotel bar or public house. In the case of a limited company, the value of the stock will be certified by the directors and the figures accepted by the auditors. In the case of a partnership, or private trader, the partners or the proprietor will be responsible for the stock valuation for the balance

sheet. Thus the banker has to rely on the integrity and ability of the personal borrowers, or of the directors of a limited company, to reach a prudent and true valuation of stock in hand. The over-valuation of stock (and of work-in-progress—see later) can seriously distort the trading picture by inflating profits or hiding losses, and dishonest or imprudent customers can keep a business in being for a time by deliberately writing-up the value of its stocks. On the other hand, the deliberate under-valuation of stock reduces profits and creates a hidden reserve for the future. This practice may be adopted in good years in an attempt to limit a heavy tax liability arising from the real profits which were earned, but the banker naturally cannot make any allowance in his own calculations for any alleged under-valuation. All contentions that the stock is really worth much more than the balance sheet figure have, therefore, to be ignored, but the risk of over-valuation must not be forgotten, particularly in smaller concerns where a rough sight check of stock may be feasible. It follows that undue swings in the value of the stock from balance sheet to balance sheet call for enquiry. Normally, the banker is content to rely upon the integrity and experience of the customer to produce correct stock figures. An investigation by an independent expert acting for the bank is a very rare need.

There is an old accounting adage which demands that provision should be made for all possible losses and realised profits only taken into account. To comply with this principle, stock is usually valued at cost or market price, whichever is the lower. The only exceptions to this unwritten rule are stocks which undoubtedly increase in value with the passage of time, such as wine and certain types of timber. Thus any increase in the market value of stock is ignored and the price originally paid is the basis for the balance sheet valuation. On the other hand, if the market price has fallen since the date of purchase, then such depreciation in value has to be covered and the market price is the correct standard to adopt. In some types of business it may be difficult to follow this rule implicitly, but however onerous the task may appear to be to the proprietor, it is unwise to deviate far from it, and the prudent bank manager will rightly criticise any serious known shortcomings of a customer in this respect. For example, a retailer of innumerable lines may think it wasteful to maintain detailed records of the cost and market prices of all the goods in stock. Sometimes the current market price may be doubtful because the goods in question are no longer available in the wholesale market. In such event, unless they have a real scarcity value, they may be difficult to sell and their value in the balance sheet should be heavily written down, if not wiped-off entirely. In a well managed business, however, stock will normally appear in the balance sheet at cost price or market price, whichever is the lower, with full provision for unsaleable or out-of-date items.

An omnibus stock item may include different categories of stock according to the nature of the business. Apart from perhaps packing materials (bags, wrapping-paper and twine), a retailer's stock will consist entirely of finished goods ready for sale to the consumer, but the stock item in the balance sheet of a manufacturer will usually include raw materials, work-in-progress and finished goods. In some cases there may also be by-products available for sale in a restricted market. If the position so demands, the banker may call for details, breaking down the stock figure under these main headings because the potential forced sale market for each category will be quite different.

Initial Tests

If stock can be bought and delivered without undue delays, a healthy business will carry only sufficient stock to meet normal trade demands. The first test, therefore, is to ensure that the stock-on-hand is not excessive for the usual business requirements of the customer. The rate of stock turnover varies according to the type of business, but the banker should know the general trading conditions applicable to every customer and be able to decide whether the stock position is reasonable. In the case of a retailer or wholesaler, there will be accepted speeds of turnover with each line of goods sold. A provision merchant or fruiterer obviously turns over perishable stocks at weekly intervals, whereas a furrier or silversmith expects to hold stocks for several months. With a manufacturer the average time taken to convert raw materials into finished goods will be known and the stock figure can be checked roughly in relation to this cycle. A comparison of stock-on-hand with total sales in the year shows roughly how much stock is held to meet a given period of standard sales. If it appears to be excessive, enquiries should be made. An unduly high stock figure may mean that the customer is stockpiling in the hope of a rise in price or in preparation for a large increase in demand. This may or may not be an acceptable policy having regard to his working capital resources. On the other hand, an excessive stock-on-hand may result from bad buying and the accumulation of stocks which cannot be sold. The time to query the position is before the advance is granted or renewed. In current conditions there can be little need for stockpiling, which was more prevalent and excusable when the source of supply was jeopardised by the war economy. Where desirable, the speed of stock turnover in a business can often be compared with that of another customer in the same line of business. The quicker the turnover, the less likelihood of an accumulation of unsaleable items. In all cases, of course, regard must be had to any seasonable factors affecting the business. The stock of a specialist Christmas card manufacturer will clearly vary with the time of the year.

The next prudent test is to verify that the stock is fully covered by insurance against fire, theft and other known risks. Such insurance must be sufficient to cover the peak stock figure, otherwise the usual average clause will mean loss to the customer in the event of a partial loss. If the stock or part of it is pledged to the bank as security or if it is caught by a floating charge created by a limited company borrower in favour of the bank, this insurance question is of greater importance. In any event, the main source of repayment in the ordinary course of business is from the sale of stock and the whole stream will dry up if uninsured or under-insured stock is lost in a serious fire. An experienced customer is hardly likely to be careless in matters of insurance, but smaller retailers and others absorbed in the problems of production may lose sight of the fact that prices have risen and they are now often carrying stock in excess of the amount of their insurance cover. A prudent enquiry from the branch manager at an interview will not therefore be out of place.

If these features appear to be reasonable for the business under review, the gone concern aspect next calls for a consideration of the possible market available in the event of a forced sale. This can obviously vary to a marked extent according to the type of stock.

Raw Materials

Raw materials will be included in the stock item of manufacturing and processing customers and in the balance sheets of brokers and suppliers dealing in such goods. They will normally be easier to sell than finished goods because they command a wider market. Some materials, such as cotton or wool, can be sold by description throughout the world, and can thus be realised without appreciable loss. A small allowance for possible market depreciation is therefore all that will be necessary in estimating the break-up value. Other raw materials may have relatively little value until they are processed into finished goods. In some cases the finished stock of one industry becomes the raw material of another industry in the trade process towards the finished goods marketed to the final consumer. For example, a cotton frock passes through several industries before it appears in the shop window of the retailer. The raw material is spun by one company and its product becomes the raw material for the weaver. It is then perhaps passed on as raw material for the dyer and finisher before it is sold to the merchant as his raw material for making-up into the finished frock. Clearly, the market for such raw material narrows as it passes to each stage. There will be innumerable buyers for the raw cotton of standard description, but the demand for cloth of a particular colour and design must be much more limited. Again, a manufacturer may be dependent upon a steady flow of many different raw materials which go into his final product in certain proportions. A delay or stoppage in the supply of any one of these components may hold up production, but from the other side of the picture the manufacturer may be a monopoly buyer of one of these raw materials and his failure will make the stock of the producer of that material virtually unsaleable. Suppose X Ltd. produces special valves for Y Ltd., who manufacture a radar unit. The valves are finished goods in the balance sheet of X Ltd., but raw material components in the balance sheet of Y Ltd. Should X Ltd. fail, the market for the sale of their stocks is restricted entirely to Y Ltd., who may for some reason have ceased production of that particular radar product. The valves are, therefore, unsaleable unless they have some scrap value. In other words, the banker must know the business of the customer, appreciate the nature of the raw materials, and assess the extent of the market available to absorb such stock should it be necessary to dispose of it under forced sale conditions. The narrower the market, the greater will be the depreciation of the balance sheet value of the raw materials.

Finished Goods

The same principles apply to finished goods, but the problem is usually more simple. The type of goods, their speed of turnover, and elasticity of demand will soon enable the banker to estimate the market available in case of need. It is dangerous to draw general conclusions, but the failure of any seller of finished goods will usually result from his inability to sell those goods in sufficient quantities at reasonable profit. Such stock remaining on hand upon bankruptcy or liquidation cannot, therefore, be expected to sell comfortably at anything approaching its balance sheet value. Moreover, in the running down period, stock is unlikely to be replaced as it is sold, the proceeds being diverted to meet perhaps wages or pressing creditors. A material reduction of the face value set out in the balance sheet will therefore be prudent.

Everything depends on the nature of the goods and the possible market for a quick sale. The stock of a retail tobacconist, grocer or chemist will not require heavy depreciation in estimating its break-up value unless it is known to be cluttered up with luxury lines in doubtful demand. The stock of a store with rapid turnover and regular bargain sales can be valued comparatively higher than the stock of a retail draper with relatively slow turnover, and a pronounced tendency to accumulate unsaleable goods. The incidence of fashion or other possible changes in public taste must be borne in mind, particularly where the stock is in the luxury class. The policy of the customer in clearing out old-fashioned lines should be known, otherwise the stock may include items which have been in the business for years and are virtually unsaleable. If the banker is familiar with the customer's business and bears in mind the low prices usually obtained for surplus stocks sold under the hammer to unwilling buyers, it will not be difficult to estimate the market and fix a prudent figure for the stock from the gone concern standpoint, after due allowance for the costs of the auction, etc.

Work-in-Progress

This item can be conveniently discussed under the heading of stock. When dealing with a manufacturing concern, it comprises the value of raw materials, plus labour expended thereon to bring them some way towards finished goods. The market for a forced sale is obviously narrow and work-in-progress may be unsaleable unless and until it can be completed. The length of the normal production cycle is, therefore, important. If raw materials are quickly turned into finished goods, a liquidator or trustee in bankruptcy may be prepared to complete the manufacture of all work-in-progress before stopping production, so that he can then sell the finished goods. On the other hand, if the manufacture and assembly stages occupy many months with correspondingly heavy labour costs, the machines may be stopped and the work-in-progress sold for what it will fetch. In such cases it is unlikely that competitive producers will wish to buy half-finished goods and the available market may be limited to their scrap content. Care is therefore necessary to ensure that the amount of work-in-progress does not become unduly large in comparison with the other floating assets of the business. There may be a clog in the wheels of production or some bottleneck which is suspect to the lending banker.

The item is of much greater importance in the balance sheet of a shipbuilder, building contractor and other types of large-scale constructors, whose main floating asset will be work in course requiring relatively large labour costs in relation to the raw materials employed. Moreover, this type of business is more prone to attempt too much in relation to its capital resources and the value of the work-in-progress will call for close analysis. The nature of the work will be known to the banker and the main contracts included therein should be considered. A break-down through failure before completion of a contract may entail heavy penalties. In any event, the contract will be of little worth unless and until it is completed, and a high price may have to be paid to competitive contractors to persuade them to complete it. Bad costing may mean that contracts in course are conducted at a loss, whilst the true position can remain hidden by over-valuation of the work done. The banker should, therefore, approach the item in a systematic manner.

The first need is to ascertain the main contracts included in the work-in-progress and to decide whether they are reasonable in relation to the experience and working capital resources of the customer. Is there already a danger that he is attempting too much? If so, a word of caution will not be out of place. Are the contracts subject to heavy penalties if they are not completed within a stated time? Are they fixed price contracts, or are the risks of increased costs in labour and raw materials suitably covered over the contract period? In the light of this information the banker can consider the prospects of successful completion of the contract by the customer and appreciate what would happen if failure occurred before completion.

Secondly, it is important to find out how the work-in-progress has been valued. The customer may receive regular progress payments for work done. These may be subject to certain retentions (deductions from the contract price for the work done) payable only after completion of the entire contract and the passage of a stated time for testing the efficacy of the work. As such retention moneys accumulate they naturally reduce the cash resources of the contractor, particularly where they include more than the profit earned on the contract. How, therefore, are these features revealed and work-in-progress valued in the balance sheet? Amounts received on account by way of progress payments should be deducted from work-in-progress and retentions should be disclosed as an item apart from trade debtors, because they will not be collected unless the contract is completed to the satisfaction of the employer or purchaser. They are a special class of debtor. At what stage work-in-progress is transferred to trade debtors is also of importance, as any hasty removal to debtors at a figure including all profit may distort the true position. But a lengthy construction job with heavy labour costs cannot always be carried to completion without some payment on account. The method of valuation of work-in-progress after deduction of all instalments received for work done to date is of vital importance. If the balance sheet figure includes all estimated profit on such work, without thought of any reserve for contingencies, there is the obvious risk of over-valuation, but some element of profit has to be included otherwise with long-term contracts spread over several years the customer would record large profits in the years when the contracts were finished and small profits or even losses in the years whilst they were in course. Unless the completion dates of the contracts were evenly spread over the years, the profit record of the concern would be very spasmodic with consequent tax complications. Some element of profit will therefore be included in the valuation of work-in-progress in the balance sheet of a large-scale contractor and must be taken into account by the banker in making an estimate of the gone concern value.

Having decided whether the item is prudently valued by the customer in the balance sheet, and knowing the essential facts to enable it to appreciate what penalties might be incurred and the difficulties which would face a receiver, liquidator, or trustee in bankruptcy, who would perforce have to try to complete the contracts, the bank will be able to estimate the value of the item. Clearly these tests are of greater value from the going concern basis because they will reveal whether the potential borrower really justifies acceptance of the risk entailed in granting the required advance.

(The remainder of the typical floating assets will be discussed next month.)

Obituary

The Late Lord Colgrain

THE death last month of Lord Colgrain brings to an end a distinguished career which was closely connected with the City, and particularly with banking. The Right Hon. Colin Frederick Campbell, First Baron Colgrain of Everlands, Co. Kent, was born in 1866, and was created a Baron in 1946. At the end of his life he had of necessity relinquished many of his former responsibilities, but those who knew him recall his high ability and personal charm. His City connections were in a sense inherited, but were certainly developed by his own gifts.

His career opened in the office of the old family business of Finlay, Campbell and Co. of which, after spending some years in India, he became a partner. In 1903, Finlay, Campbell amalgamated with Forbes, Forbes and Co., of Bombay, as Forbes, Forbes, Campbell and Co., of which Lord Colgrain subsequently had a long period as chairman. Another of the companies with which his family was connected was the London Assurance, to which he was elected a director in 1897 on the death of his father, who was governor at that time. Lord Colgrain himself became governor in 1914, and held that office for nearly twenty years.

But it was as a leading banker that he achieved his greatest distinction. He joined the board of the National Provincial Bank over 51 years ago, becoming deputy chairman in 1929 and chairman four years later, and although giving up the chairmanship in 1946, he remained until his death a director of that institution. From 1938 until 1946 Lord Colgrain was president of the British Bankers' Association and chairman of the Committee of London Clearing Bankers. Apart from his responsibilities as chairman of one of the big clearing banks, he was thus the principal spokesman for the banks during the critical years of the second world war and the not less difficult period immediately after peace had been restored. This period, for example, covered the passing of the Bank of England under state control, and the establishment of new relationships between the Central Bank and the other institutions. At about this time, Lord Colgrain was also a member of the Consultative Council of the Chancellor of the Exchequer, an office then held first by Sir Kingsley Wood and then by Sir John Anderson.

Apart from his connection with the National Provincial, Lord Colgrain was for many years on the boards of the Chartered Bank of India, Australia and China, and of Alexanders Discount Co., being chairman of the latter from 1916 until 1950. At the end of a long life, which witnessed vast social and economic changes, he is remembered in the City for great courtesy and helpfulness, as well as tact, negotiating ability and sound judgment.

Banking Appointments, etc.

BARCLAYS BANK LIMITED

Field-Marshal The Earl Alexander of Tunis has been appointed a Director of the Bank.

Birmingham District L.H.O.	Mr. H. S. Wardle, of Birmingham, to be Local Director and District Manager.
Head Office,	
Inspection Department	Mr. J. E. D. Burgess to be an inspector.
Metropolitan Managers' Office.	Mr. S. E. T. Williams to be a Metropolitan Manager.
Trustee Department	Mr. D. E. Wilde, of City Branch, to be Deputy Trustee Manager.
	Mr. T. R. A. Collett, of Chief Office, to be a Sub-Manager.
	Mr. B. C. Sharp, of Richmond, to be Manager of City Branch.
	Mr. D. R. Marsh, of Chief Office, to be Manager of Richmond Branch.
Cavendish Square	Mr. R. G. Pattison, of Mount Street, to be Manager.
Leytonstone Road	Mr. C. W. G. Purser, of Mile End, to be Manager.
Mount Street	Mr. J. G. Millen, of 160, Piccadilly, to be Manager.
Sidcup Station	Mr. H. C. Taffs to be Manager.
Bagshot	Mr. R. K. Kemp, of Newbury, to be Manager.
Barnsley, Queen Street, and Wombwell.	Mr. J. A. Cartwright, of Fitzalan Square, Sheffield, to be Manager.
Billingshurst	Mr. S. R. Sheath, of Charminster Road, Bournemouth, to be Manager.
Birmingham, Handsworth	Mr. C. K. Potter to be Manager.
Brighton, Western Road	Mr. C. E. Clark, of Seaside, Eastbourne, to be Manager.
Eastbourne, Seaside	Mr. R. C. Coward, of Billingshurst, to be Manager.
Hatfield Aerodrome	Mr. J. S. B. Forster to be Manager.
Heanor	Mr. F. Weaver to be Manager.
Heaviley and Hazel Grove	Mr. T. E. Dunks, of Manchester L.H.O., to be Manager.
Norwich, St. Benedict's	Mr. A. T. Lawrence, of Norwich, St. Stephen's, to be Manager.
Reddish	Mr. R. A. Bury to be Manager.
Rustington	Mr. N. B. Reid, of Bognor Regis, to be Manager.
Shanklin and Ventnor, Isle of Wight.	Mr. S. F. White, of Rustington, to be Manager.
Stockport	Mr. R. N. J. Taylor, of Heaviley and Hazel Grove Branches, to be Manager.
Stockport, Edgeley	Mr. J. F. Bullock, of Edgeley, Stockport, to be Manager.
Langham Place	Mr. E. H. Griffin to be Assistant Manager.
Piccadilly, 160	Mr. B. A. Dowling, of Langham Place, to be Joint Assistant Manager.

BOWMAKER LIMITED.—Sir Arthur Morse, C.B.E., has been elected Chairman of the Board of Directors, and Mr. W. B. Mayles has also joined the Board and is a full time Executive Director of the Company.

THE CANADIAN BANK OF COMMERCE.—Mr. W. F. McLean has been elected a Director.

DISTRICT BANK LIMITED

Mr. Albert Dunn, a Joint General Manager, is retiring on pension at the end of November after forty-eight years' service. He will be succeeded by Mr. Frank Stott.

Mr. J. H. Firth to be an Assistant General Manager, Mr. W. E. Brown to be Chief Accountant, and Mr. W. E. English to be the Head Office Accountant.

Newcastle-upon-Tyne (36/38 Mosley Street).	Mr. A. E. Powell to be Manager.

GLYN, MILLS AND CO.—Mr. Maurice George Burnett and Mr. John Newton Butterwick to be Local Directors.

JAPHET (S.) AND CO. LTD.—Mr. Maurice Jacobs has been appointed to the Board of S. Japhet and Co.

Lloyds Bank Limited

Head Office: Chief Inspector's Department.	Mr. R. A. D. Barnard, of Hendon Central, N.W., to be an Inspector.
Information Department	Mr. C. F. James, of Information Department, to be Manager.
Staff College . . .	Mr. J. G. C. Toope to be Senior Instructor.
Stationery Department .	Mr. D. G. Rodwell, of Head Office, to be Sub-Manager.
Training Centre . .	Mr. W. E. Roach, of Staff College, to be Principal.
District Office, Bristol .	Mr. R. H. Markham, of North End, Portsmouth, to be District Manager's Assistant.
District Office, Salisbury .	Mr. R. N. Jutsum, from Rye, to be District Manager's Assistant.
Pall Mall, S.W. . . .	Mr. J. B. Winter, of 125, Oxford Street, W., to be an Assistant Manager; Mr. P. S. Whitelaw, of Pall Mall, S.W., to be a Section Manager.
Gloucester	Mr. W. H. N. Mullens, of Trowbridge, to be Manager.
Great Yarmouth . .	Mr. H. D. Jordan, of District Office, Bristol, to be Manager.
Hendon Central, N.W. .	Mr. A. P. Teare, of Old Bond Street, W., to be Manager.
Hull	Mr. E. H. Marriott, of Exeter, to be Sub-Manager.
Liverpool (also Wallasey) .	Mr. C. Price to be Manager.
125, Oxford Street, W. .	Mr. R. F. Hale, of Head Office, to be Manager.
Paragon Street, Hull .	Mr. J. L. Moorhouse to be Manager.
Roath, Cardiff . . .	Mr. J. W. S. Chard, of Swansea, to be Manager.
Stratford-on-Avon . .	Mr. H. H. Rutter, of Upton-on-Severn, to be Manager.
Swansea	Mr. J. S. Tranter, of the Inspection Staff, to be Sub-Manager.
Swindon	Mr. J. A. B. Hoare, of Tiverton, to be Manager.
Trowbridge	Mr. W. J. Ingamells, of District Office, Salisbury, to be Manager.
Westgate Road, Newcastle-upon-Tyne.	Mr. H. F. Smurthwaite, of Stockton-on-Tees, to be Manager.

Martins Bank Limited

Mr. E. N. Norman-Butler to be London District General Manager while retaining his present status of Assistant General Manager. Mr. L. G. Tunnah to be London Assistant District Manager. Mr. F. C. Hardman to be London District Superintendent of Branches.

Bootle (Lancashire), 211, Stanley Road.	Mr. A. H. Clague, of Head Office, to be Manager.

Midland Bank Limited

London: East Sheen. .	Mr. H. R. Russell, of Greenwich, to be Manager.
London: Greenwich . .	Mr. J. R. Cross to be Manager.
London: Leadenhall Street	Mr. R. O. Barker to be Assistant Manager.
London: Walham Green .	Mr. C. W. Goodwin, of East Sheen, to be Manager.
Coalville	Mr. H. McGuire, of Ashby-de-la-Zouch, to be Manager.
Hornsea	Mr. W. Bates, of Nessgate, York, to be Manager.
Huddersfield: Cloth Hall Street.	Mr. P. N. Goodwin, of Park Row, Leeds, to be Assistant Manager.
Old Colwyn . . .	Mr. I. L. Wynne to be Manager.
Wilmslow	Mr. T. L. Stewart, of 2, Bold Street branch, Liverpool, to be Manager.

The National Bank of New Zealand Limited.—Mr. Arthur H. Ensor has been appointed Deputy Chairman of The National Bank of New Zealand Ltd.

National Provincial Bank Limited

Head Office	Mr. V. L. Edwards to be a Controller, Advance Department.
Trustee Department . .	Mr. E. D. Corkill to be Manager.
	Mr. U. J. Burke, of Trustee Department, and Mr. S. J. Thomson, of Investment Section, Trustee Department, to be Joint Deputy Managers.
Piccadilly	Mr. S. F. Jackson to be Assistant Manager.
	Mr. F. H. Webber to be Manager's Assistant.
Shaftesbury Avenue . .	Mr. H. J. L. Withrington, of Piccadilly, to be Manager.
South Norwood . . .	Mr. J. R. Adams, of Beckenham, to be Manager.
Bath	Mr. E. A. Merrifield, of Hull, to be Manager.
Beckenham	Mr. J. Kelsey, of Tottenham Court Road, to be Manager.
St. James's Street, Brighton	Mr. R. H. Hill to be Manager.
Cross Gates . . .	Mr. P. W. Lucas, of Bradford District Bank Office, Bradford, to be Manager.

Cullompton	Mr. R. H. Cox to be Manager.
Ely	Mr. H. R. Hall, of Sleaford, to be Manager.
Fleetwood	Mr. L. H. Meek, of Smithfield Market, Manchester, to be Manager.
Gorleston-on-Sea	Mr. L. W. Freeman, of Winchester, to be Manager.
Grays, Essex	Mr. S. G. H. Spain, of Drayton, Portsmouth, to be Manager.
Hull	Mr. J. L. Kinsley to be Assistant Manager.
Kenton	Mr. C. J. M. Stickland, attached Inspection Department, Head Office, to be Manager
Lichfield	Mr. C. J. Pollard to be Manager.
St. Helens, Lancs	Mr. T. H. Taber, of Newcastle, Staffs, to be Manager.
St. Leonards-on-Sea	Mr. M. F. Rule to be Manager.
Southampton	Mr. J. E. Holifield to be Assistant Manager.
Stockton-on-Tees	Mr. W. M. Truelove, of Advance Department, Head Office, to be Manager.
Wolverhampton	Mr. O. L. Diment, of Stockton-on-Tees, to be Manager.
Great Yarmouth	Mr. J. S. Ling, of Gorleston-on-Sea, to be Manager.
To be Inspectors of Branches.	Mr. F. L. Race, of Croydon.
	Mr. G. H.Freeman, of Oxford Street.
	Mr. L. A. Witherick, of Newport, Mon.
	Mr. R. J. Fox of Leicester.

THE UNION BANK OF SCOTLAND LIMITED

Hamilton Branch	Mr. Martin Munro to be Manager.

WESTMINSTER BANK LIMITED

Head Office	Mr. S. A. Gregory, of Lombard Street, to be an Inspector of Branches.
	Mr. H. Heaps, of Crewe, to be an Inspector of Branches.
Alsager	Mr. J. E. Carruthers, of Scarborough, to be Manager.
Ashton-under-Lyne, Dukinfield and Stalybridge	Mr. J. E. Clifford, of Alsager, to be Manager.
Bury St. Edmunds	Mr. W. E. E. Hebley, of Norwich, to be Manager.
Canterbury	Mr. H. W. G. R. Marriott, of East Grinstead, to be Manager.
Crewe	Mr. D. W. Caine to be Manager.
East Grinstead	Mr. A. P. F. Burton, of Haverhill, to be Manager.
Great Portland Street	Mr. E. N. Webb, of Euston Road, to be Manager.
Hathersage	Mr. J. E. Thorp, of Bakewell, to be Manager.
Haverhill	Mr. J. L. Palmer, of Southborough, to be Manager.
Hindhead	Mr. A. J. Ling, of Tadworth, to be Manager.
Manchester	Mr. J. H. Chidlaw, of Ashton-under-Lyne, to be an Assistant Manager.
Northcote Road	Mr. C. S. Gooden, of Wimbledon, to be Manager.
Notting Hill Gate	Mr. J. V. Dearsly, of Streatham, to be Manager.
Sandwich	Mr. C. J. Knight, of Bournemouth, to be Manager.
Southsea	Mr. L. G. Westcombe, of Hindhead, to be Manager.
Streatham	Mr. G. J. Perfitt, of Northcote Road, to be Manager.
Taunton	Mr. H. H. Adamson to be Manager.
Uttoxeter	Mr. E. N. Robson, of Market Drayton, to be Manager.

New Branches

AUSTRALIA AND NEW ZEALAND BANK LIMITED.—At Eighth Street (temporary premises), Lucindale, South Australia (formerly an agency); and at The Kingsway (temporary premises), Caringbah, Sydney, N.S.W.

BANK OF NEW SOUTH WALES.—At Millmerran, Queensland, and at Yelarbon, Queensland.

DISTRICT BANK LIMITED.—At 36–38, Mosley Street, Newcastle-upon-Tyne, 1.

LLOYDS BANK LIMITED.—At Harold Hill, Essex (Sub to Romford); and at Mount Charles, St. Austell (Sub to St. Austell).

MARTINS BANK LIMITED.—At Mode Wheel Cattle Market, Mode Wheel, Manchester, 17; and at Morpeth Auction Mart, Morpeth, Northumberland (under control of the Morpeth Manager).

NATIONAL PROVINCIAL BANK LIMITED.—At St. James's Street, Brighton; at Cullompton; at Ely; at Grays, Essex; and at St. Leonards-on-Sea.

STANDARD BANK OF SOUTH AFRICA LIMITED.—At Graskop and White River (formerly sub-branches).

Monetary Review

ALTHOUGH by no means plentiful, credit was slightly easier during the first half of last month, after a period of stringency at the end of October and the beginning of November—particularly when the incidence of the August bank holiday left the discount market short of maturing bills. The amount of assistance required by the market by way of special purchases of bills was relatively small, the market going several days at one time without any assistance at all. In the latter part of November, however, conditions were much less comfortable.

The unconverted balance of £122 million of the $1\frac{3}{4}$ per cent. Serial Funding stock, 1954, was duly paid off on November 15. It had been believed that about half of this total had already been acquired by official quarters, but this may have been an under-estimate. In any event, the funds released by the repayment of the remainder of the outstanding stock failed to increase market resources to any extent, and after a few days the discount market had to borrow a small amount at the Bank of England.

	Floating Money	Market Rates—Bank Bills: Three Months	Four Months	Six Months	Bank Rate	Date of last Alteration
	%	%	%	%	%	
Oct. 21, 1954	$1\frac{1}{4}$–$1\frac{1}{2}$	$1\frac{7}{8}$	$1\frac{7}{8}$–$1\frac{15}{16}$	$1\frac{3}{4}$–$1\frac{15}{16}$	3	May 13, 1954.
Nov. 23, 1954	$1\frac{1}{4}$–$1\frac{5}{8}$	$1\frac{31}{32}$	$1\frac{15}{16}$	$1\frac{7}{8}$–$1\frac{15}{16}$	3	
Movement		$+\frac{1}{32}$	$+\frac{1}{32}$	$+\frac{1}{32}$		

Bill rates declined fractionally at the end of October, following the lower average rate at which Treasury bills were allotted on October 29. Following the Bank borrowing, rates were raised again and were actually higher on the month. The banks also raised the rates at which they were prepared to take bills from the market.

The Treasury continued to raise additional funds through the bill tenders, although the weekly excess of new bills over maturities was not large as a rule. Applications at the last tender of October reached £439,165,000, a new high record slightly exceeding the previous peak, touched six months earlier. In anticipation of keener competition at this tender, the discount houses raised their tender price by 1*d*. to £99. 12*s*. 1*d*. per cent., but reduced it to £99. 11*s*. 10*d*. on November 19, when money had become much more difficult.

In the foreign exchange market, sterling improved against the dollar early in November, the New York rate recovering to its parity of 2·80, which led to the suggestion that the seasonal demand for dollars on commercial account had at last slackened. The rate, however, subsequently fluctuated a good deal within narrow limits, falling at one to 2·79. Montreal followed a similar course between 2·71$\frac{9}{16}$ and 2·70$\frac{1}{2}$, and forward rates on both centres moved fractionally in favour of the dollar.

Among other exchanges, a notable movement was a rise in the value of the Danish krone, the Copenhagen rate dropping from nearly 19·45 to under 19·43$\frac{1}{2}$, while the forward rate indicated an even greater improvement in Danish currency. These

movements denote an improvement in Denmark's balance of payments for the time being rather than the full effect of the longer-term measures recently taken by the Danish Government to strengthen the country's overseas payments position.

TREASURY BILLS

Date 1954	*Bills Offered £ (000's omitted)	Bills Applied for £ (000's omitted)	Average Rate % s.	d.
Apr. 2	270,000	399,040	42	4·01
„ 9	270,000	392,195	42	4·05
„ 15	230,000	417,175	41	7·41
„ 23	230,000	415,375	41	7·34
„ 30	230,000	437,545	40	11·36
May 7	240,000	405,615	40	10·84
„ 14	260,000	391,695	34	1·75
„ 21	270,000	400,655	34	3·21
„ 27	270,000	426,825	34	3·33
June 4	270,000‡	414,325	32	11·61
„ 11	260,000†	418,325	32	3·56
„ 18	260,000†	400,440	31	7·57
„ 25	260,000	420,015	32	1·48
July 2	270,000	383,955	32	3·41
„ 9	270,000‡	396,195	31	3·09
„ 16	240,000	433,145	31	2·27
„ 23	230,000	423,055	31	2·52
„ 30	240,000	414,220	31	2·8
Aug. 6	240,000	397,585	31	3·09
„ 13	250,000	387,485	31	10·56
„ 20	260,000	398,245	32	2·66
„ 27	260,000	422,715	32	3·19
Sept. 3	270,000	398,625	32	4·02
„ 10	270,000	397,830	32	10·75
„ 17	280,000	402,545	32	11·74
„ 24	280,000	427,990	32	3·86
Oct. 1	280,000	397,680	32	0·23
„ 8	280,000	417,720	31	11·50
„ 15	270,000	429,120	31	11·18
„ 22	260,000	416,470	31	11·30
„ 29	250,000	439,165	31	7·19
Nov. 5	260,000	412,955	31	7·16
„ 12	260,000	424,210	31	6·98
„ 19	260,000	424,870	32	5·80

*To be taken up during following week. ‡ Under-allotted by £20 million. † Under-allotted by £10 million.

The Bank of England returns from the beginning of November began to reflect the seasonal outflow of notes before Christmas, the active note circulation rising by about £13 million in three weeks. By November 17, the banking department reserve had been reduced to £29 million, which indicates the probability, in view of the continued efflux of notes now in prospect, of an early increase in the fiduciary note issue. The returns also appear to reflect the less stringent conditions in Lombard Street early in November, bankers' balances for the first two returns of the month having been over £295 million.

With the return to work at the docks at the beginning of November stock markets were relieved of one influence which might have kept them in check. Business was active, but prices as a whole moved rather uncertainly, one restraining influence being the large new issues which made their appearance during the month. The gilt-edged market continued to improve, helped by the encouraging gold and dollar figures for October.

Industrial equities showed hesitancy at one time, and were evidently under the influence of a good deal of speculation. Although company dividends and reports as a rule left little to be desired, realisations by short-term operators produced something approaching weakness during the first half of the month, and the same influence appeared in the leading oil shares, in spite of the large capitalisation issue announced by the Anglo-Iranian Company following the settlement of the Persian oil dispute. Although some support was forthcoming in the more speculative markets, London security prices as a whole presented a contrast to the unexpected strength of the New York market which developed after the Democratic victory in the mid-term elections.

The new issues offered to the public last month were large and diversified, including quasi-gilt-edged securities, various prior charges, and equities. An issue was announced

at the end of October of £10 million New Zealand $3\frac{1}{2}$ per cent. stock, 1981–84 at 98, while the first week of November witnessed an offer of £25 million North of Scotland Hydro-Electric Board $3\frac{1}{2}$ per cent. 1977–80 at par, followed shortly afterwards by £5 million of Bristol $3\frac{1}{2}$ per cent. stock, 1970–74 at $99\frac{1}{2}$. Each of these issues was more or less heavily oversubscribed, and premiums were established on the new stocks when Stock Exchange dealings commenced.

Other successful operations included the offer for sale of 3 million Standard Motor $5\frac{1}{2}$ per cent. cumulative £1 preference shares at 20*s*. 6*d*. and the issue of £2 million British Assets Trust 4 per cent. debenture stock at par. The month's outstanding equity issue was 15 million Dorman Long £1 ordinary shares at 22*s*. 6*d*. This issue, which was announced surprisingly soon after the John Summers issue, attracted subscriptions totalling some 75 million shares. It was the fifth public offer made in the course of steel denationalisation, the progress of which is discussed in a separate note on page 489.

"NET" DEPOSITS AT NEW HIGH RECORD

Published bank deposits, as recorded in the combined return of the eleven London clearing banks, rose sharply in October, and net deposits reached a new peak. The rise in gross deposits was £70·6 million, while the increase of £74·5 million in net deposits raised the total to £6,374·7 million, which is considerably above the previous high point of £6,307·2 million last December. As indicated by Lloyds Bank index of net deposits, which increased only by 0·1 to 110·1, the expansion of deposit totals was largely seasonal.

(Figures in £1,000,000)

	Deposits, &c.	Net Deposits	Cash and at Bank	p.c. to Deposits	Money at call, &c.	Discounts Treasury Bills	Discounts Other Bills	Investments	Advances
	£	£	£		£	£	£	£	£
October, 1954	6,609·5	6,374·7	531·9	8·1	437·2	1,212·4	83·1	2,363·7	1,823·9
September, 1954	6,538·9	6,300·2	520·9	8·0	417·6	1,181·5	80·4	2,360·5	1,815·6
August, 1954	6,518·8	6,279·4	533·5	8·2	437·8	1,126·8	82·6	2,348·0	1,829·0
July, 1954	6,466·1	6,241·0	533·8	8·3	427·9	1,091·1	93·9	2,350·7	1,823·5
June, 1954	6,533·2	6,233·9	531·3	8·1	454·5	1,079·9	90·2	2,311·4	1,837·0
May, 1954	6,335·2	6,104·4	500·6	7·9	463·1	1,033·9	87·9	2,304·7	1,793·3
April, 1954	6,377·5	6,088·5	534·6	8·4	489·2	999·8	88·3	2,279·9	1,772·1
March, 1954	6,243·2	6,009·9	511·9	8·2	467·7	995·1	83·2	2,269·4	1,760·2
February, 1954	6,237·1	6,010·0	504·5	8·1	453·6	1,034·0	79·2	2,274·9	1,740·6
January, 1954	6,456·6	6,232·1	529·0	8·2	482·6	1,254·0	76·4	2,277·1	1,694·7
December, 1953	6,694·2	6,307·2	541·9	8·1	500·7	1,538·2	79·0	2,275·2	1,706·8
November, 1953	6,418·6	6,193·7	520·3	8·1	469·2	1,299·5	54·8	2,245·1	1,676·0
October, 1953	6,373·3	6,155·6	518·4	8·1	475·1	1,286·7	53·1	2,238·1	1,654·0
September, 1953	6,319·6	6,095·1	515·0	8·2	475·5	1,322·0	53·8	2,136·9	1,662·3

Movements among the banks' assets suggest that the main factor in the expansion of deposits was Government borrowing. The aggregate holding of Treasury bills increased by £30·9 million and call money by £19·6 million, while the rise in advances was no more than £8·3 million. This last movement, however, occurred in spite of the fact that a £30-million call on the recent British Electricity Authority loan fell due during the period covered by the statement. If any considerable proportion of this sum was used to repay bank loans, as is highly probable, the rise in advances to other borrowers would be that much larger than is indicated by the figures.

Stock Exchange Values

THE course of security values during the past month has again made a mixed showing, with high-class investment stocks moving almost continually in favour of holders, while industrials have been erratic. British funds have been helped by the further evidence of improvement in the economy and the ending of the dockers' strike, and have received a good deal of support in spite of the large sums absorbed by new issues of first-class securities. Many other fixed-interest stocks have moved up in sympathy with the gilt-edged market. The industrial equity share market has presented a different picture, prices being irregular at the end of October, and rather uncertain at times in the first half of last month. No doubt competition of new capital issues has had its effect on this market, but realisations by short-term speculators are said to have been largely responsible for the frequent spells of hesitancy. Among foreign bonds, Japanese have advanced further under the influence of signs of improvement in Japan's economic outlook. Rubber and tea shares have responded to higher prices for their respective commodities, and the sharp advance on Wall Street has brought an improvement in American railway values.

Aggregate value of 365 representative securities on October 15, 1954 . . .	£6,966,189,000
,, ,, ,, 365 ,, ,, ,, November 15, 1954 . .	£7,016,473,000
Increase .	£50,284,000

OUR INDEX NUMBER

Below will be found the movements in the index number of the security values of our list of 365 representative stocks from the year 1929 down to the present time. Limitations of space have made it necessary to omit each month our lengthy list of variations in the fixed and variable dividend securities over a period of years, but once a year (in the January issue) we give the complete list of the index numbers of those stocks. The total index number for November, was 126·3, as compared with 125·4 for the previous month. The index number of the fixed interest group now stands at 119·7, as compared with 119·4 for the previous month, and in the variable dividend list the index number is 140·2, compared with 138·1 for the previous month.

SECURITY VALUES INDEX NUMBER
(*December, 1921 = 100)

Year	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1929 .	129·6	128·1	127·3	127·3	125·6	125·4	126·5	127·0	127·3	126·1	120·9	121·0
1930 .	121·7	121·8	123·3	124·2	121·9	119·0	120·3	118·1	119·3	117·6	116·8	114·4
1931 .	114·9	112·6	114·1	111·9	108·0	108·6	109·3	104·3	99·0	103·1	103·1	98·5
1932 .	110·9	101·7	105·5	102·1	101·8	100·6	105·5	108·4	111·4	112·5	109·6	109·4
1933	110·2	111·1	111·2	112·4	112·5	114·3	115·9	117·6	118·7	118·4	117·6	117·6
1934 .	120·4	121·5	122·9	123·8	122·6	121·8	122·5	122·3	122·8	123·6	126·9	126·5
1935 .	128·5	125·8	123·7	124·9	125·8	125·5	126·4	125·8	120·6	121·3	125·5	126·4
1936 .	128·1	129·6	128·6	130·2	129·1	128·8	129·4	131·0	131·7	133·9	133·8	133·1
1937 .	132·6	129·7	128·4	128·2	127·3	125·6	125·1	125·0	123·0	121·6	121·0	121·2
1938 .	121·6	120·7	115·9	119·2	117·0	116·3	118·9	117·7	113·8	114·2	114·4	112·4
1939 .	112·0	111·7	110·0	107·1	110·0	109·8	108·8	107·4	103·3	106·3	108·7	108·7
1940 .	112·2	114·3	114·6	114·1	110·4	104·6	106·0	107·8	108·2	110·0	111·3	112·0
1941 .	113·6	112·8	112·9	112·4	113·3	113·5	115·6	116·0	117·5	117·1	117·8	117·1
1942 .	118·5	117·0	117·0	117·3	117·2	117·5	118·1	118·2	119·0	120·4	129·0	120·6
1943 .	122·7	122·5	122·7	123·3	122·3	122·1	123·3	123·0	123·1	123·4	122·6	122·7
1944 .	123·3	123·8	123·6	123·5	123·8	124·5	125·0	125·1	124·6	124·9	125·3	125·5
1945 .	126·1	126·1	126·3	127·1	126·6	126·4	127·1	126·1	126·3	127·0	127·2	126·8
1946 .	128·3	128·9	128·3	130·1	131·7	132·1	132·2	131·4	130·4	130·0	132·1	133·2
1947 .	133·8	132·3	132·2	131·3	132·0	131·3	131·0	125·2	123·7	125·0	125·6	127·9
1948 .	128·8	127·6	126·8	127·5	128·2	128·0	126·9	127·0	127·1	127·3	127·6	127·5
1949 .	128·0	128·1	126·7	126·6	126·5	124·1	122·1	119·8	119·9	120·3	117·7	119·8
1950 .	119·1	119·0	118·8	119·5	119·7	121·4	119·9	120·0	122·3	123·8	124·0	122·2
1951	123·6	123·6	122·8	122·4	123·0	122·3	121·1	120·5	120·8	121·3	119·7	115·9
1952	115·4	114·7	111·6	112·9	113·1	110·2	110·3	110·7	113·7	112·6	112·0	113·0
1953	113·5	113·9	114·9	115·1	114·6	115·2	114·9	115·6	115·7	116·9	118·1	117·5
1954 .	117·8	118·9	119·2	120·7	121·5	120·9	123·3	124·8	124·5	125·4	**126·3**	

* Date when Securities revised.

TABLE—SHOWING VALUES OF SECURITIES AND THEIR AGGREGATE VARIATION DURING THE PAST MONTH

[ooo's omitted]

Nominal Amount (Par Value)	Department, containing		Market Values Oct. 15, 1954	Market Values Nov. 15, 1954	Change on the Month		Increase or Decrease Per Cent.	
£			£	£		£		
3,566,600	10	British and Indian Funds .	3,401,146	3,410,632	+	9,486	+	0·3
58,950	9	Corporation (U.K.) Stocks .	51,813	51,850	+	37	+	0·1
83,550	8	Colonial Government Stocks .	78,037	78,393	+	356	+	0·5
22,300	8	Corporation Stocks (Colonial) .	19,931	20,036	+	105	+	0·5
21,050	7	Do. do. (Foreign) . .	18,638	19,049	+	411	+	2·2
598,230	26	Foreign Government Stocks .	216,174	217,502	+	1,328	+	0·6
254,655	6	British Railway Debenture Stks.	‡301,278	‡301,278		.		.
310,765	6	Do. do. Preference Stks.	‡247,161	‡247,161		..		..
132,000	7	United States Bonds (Gold) † .	†141,662	†141,662		.		..
5,048,100	87	Fixed Interest Stocks . . .	**4,475,840**	**4,487,563**	+	**11,723**	+	**0·3**
315,325	13	British Railway Ordinary Stocks	‡72,406	‡72,406		..		..
18,900	5	Indian Railway Stocks . .	26,614	26,614		..		..
88,350	5	Colonial Railways . .	122,368	124,704	+	2,336	+	1·9
474,000	11	United States Railway Shares .	301,962	312,483	+	10,521	+	3·5
141,200	20	Foreign Railways . . .	27,760	27,820	+	60	+	0·2
59,685	13	British Bank Shares . . .	213,765	217,959	+	4,194	+	2·0
43,000	18	Colonial and Foreign Bank Shs.	73,584	74,137	+	553	+	0·8
18,121	10	Brewery Stocks	67,682	68,890		1,208	+	1·8
17,750	7	Canals and Docks . . .	23,344	23,352	+	8	+	0·0
146,916	38	Commercial and Industrial Shs.	618,655	625,659	+	7,004	+	1·1
9,537	8	Electric Lighting and Power .	‡21,592	‡21,592		..		..
15,100	9	Financial, Land and Investment Shares	31,228	32,149	+	921	+	3·0
30,680	7	Gas Stocks	‡27,895	‡27,895		..		..
9,343	17	Insurance Shares . . .	248,989	252,760	+	3,771	+	1·5
58,294	14	Iron, Coal and Steel Shares .	107,095	104,440	—	2,655	—	2·5
3,100	5	Nitrate Shares	668	723	+	55	+	8·3
42,649	10	Oil Shares	208,937	216,789	+	7,852	+	3·8
5,402	9	Rubber Shares	2,346	2,457	+	111	+	4·8
17,456	5	Shipping Shares	30,859	31,083	+	224	+	0·7
1,890	6	Tea Shares	5,944	6,027	+	83	+	1·4
20,808	9	Telegraphs and Telephones .	57,164	56,900		264	—	0·5
27,716	7	Tramways and Omnibus . .	44,793	44,621	—	172	—	0·4
29,517	19	South African Mines . . .	95,126	93,884	—	1,242	—	1·3
28,735	6	Copper Mining Shares . .	48,732	52,450	+	3,718	+	0·8
11,859	7	Miscellaneous Mining Shares .	10,841	11,116	+	275	+	2·5
1,635,333	278	Variable Dividend Securities . .	**2,490,349**	**2,528,910**	+	**38,561**	+	**1·5**
6,683,433	365	Grand totals .	**6,966,189**	**7,016,473**	+	**50,284**	+	**0.7**

† Designation of gold bonds retained though title apparently unwarranted.

‡ Entered at vesting prices.

BANKERS' MAGAZINE SHARE LIST

BANKS

Last Dividend Actual	Total for Year	Total for Previous Year	NAME	Quotations Oct. 15, 1954	Quotation Nov. 15 1954
1/6	—	5/	Alexanders Discount Co. Ltd.	—	60/
1/2¼	2/4†	2/4½	Do. do. 6% Cum. Pref. (£2)	47/6	47/6
9½d.	—	2/	Australia and New Zealand Bank (£2, with £1 paid)	38/6	38/6
1/‡	2/‡	1/9¾‡	Bank of Adelaide Stock	32/6	32/6xd
2/4†	—	8/	Bank of British West Africa Ltd. (£10, with £4 paid)	8¾	10
£6	—	£15	Bank of Ireland Stock	—	—
2/	—	6/	Bank of London & S. America Ltd. Stock	5¼	5¼
50 cents	—	$1·40	Bank of Montreal (*London Register*) ($10)	£15¾	£16 xd
9/‡	30/‡	34/‡	Bank of New South Wales (*London Register*) (£20)	31½	31¾xd
40 cents		$1·80	Bank of Nova Scotia (*London Register*) ($10)	£18½	£19
1/4†	—	2/7½	Bank of Scotland (Governor & Co. of) Stock	70/	73/
9¼d.	-	1/7½	Barclays Bank D.C.O., Ord. Stock	44/6	47/
1/	-	—	Barclays Bank Ltd., Ord. Stock	49/6	49/
9½d.	—	1/1½	British Bank of the Middle East	32/	35/6xd
30 cents	—	$1·20	Canadian Bank of Commerce (*London Register*) ($10)	£15½	£16½
1/6	—	2/9½	Chartered Bank of India, Australia & China, Stock	48/	45/6
6d.‡	1/‡	1/‡	Commercial Bank of Australia Ltd. Ordinary (*London Register*) (10/)	17/	16/6
2‡	4‡	4‡	Commercial Bank of Australia Ltd. 4% Pref. (*London Register*) (£10)	6½	6½
5·76d.	—	11·52d.	Commercial Bank of Scotland Ltd., "A" Shares (£1, with 6/ paid)	27/	29/
1/		2/	Commercial Bank of Scotland Ltd., "B" Shares (£1) ..	45/	45/6
2/	—	4/	District Bank Ltd., "A" Shares (£5, with £1 paid)	96/	99/
1/	—	2/	Do. do. "B" Shares (£1)	46/	46/
2/	—	4/	Do. do. "C" Shares (£1)	97/6	100/
3/	—	8/	Eastern Bank Ltd. (£10, with £5 paid)	9½	9½
5/	7/	7/6	English, Scottish & Australian Bank Ltd. (£5, with £3 paid) ..	6¼xd	6⅜
2/6	—	8/9	Hambros Bank Ltd. (£10, with £2½ paid)	8½	8½xd
7½d.	—	1/2⅝	Do. do. "A" Shares (£1)	23/6	23/6xd
£2	—	£5	Hongkong & Shanghai Banking Corp. (*London Register*) ($125)	£103	£102
4/	4/	4/	Ionian Bank Ltd. (£5)	77/6	77/6
1/4½	—	2/9½	Lloyds Bank Ltd., "A" Shares (£5, with £1 paid)	66/6	70/
6d.		1/	Do. do. "B" Stock (£1)	25/6	25/
4/4½		8/9	Martins Bank Ltd. (£20, with £2½ paid)	10¼	10¼
1/9	—	3/6	Do. do. (£1)	87/6	89/
—	—	—	Mercantile Bank of India Ltd., "A" Shares (£5, with £2½ pd.)	5	5
—	—	—	Do. do. do. "B" Shares (£5, with £2½ pd.)	5	5
—		—	Do. do. do. "C" Shares	40/	40/
4/		8/	Midland Bank Ltd. (£12, with £2½ paid)	10½	10½
4/	—	8/	Do. do. (£2½)	10⅜	10½
1/7½	—	3/2¾	Do. do. (£1)	85/	87/
1/	—	2/2½	National Bank Ltd. (£5, with £1 paid)	40/	40/
40psts	—	200psts	National Bank of Egypt (Bearer) (£E10)	25½	24½
10½d	—	40/	National Bank of India Ltd. (£1, with 12/6 paid)	25/6	25/
3/6	5/	4/	National Bank of New Zealand Ltd. (£7½, with £2½ paid) ..	5⅝	5½
1/	—	2/	National Discount Co. Ltd., "A" Stock	42/	42/
1/	—	2/	Do. do. "B" Stock	50/	50/
1/2·28	—	2/4·56	National Provincial Bank Ltd., "A" Shares (£5, with 14/ paid)	59/6	60/6
1/8½	—	3/4½	Do. do. do. "B" Shares (£5, with £1 paid)	81/6	82/6
1/8½	—	3/4½	Do. do. do. Shares (£1)	86/	85/6
8/	8/	8/	Ottoman Bank (Bearer) (£20, with £10 paid)	9	8½
47½ cents	$1.47½	$1·40	Royal Bank of Canada ($10)	£17	£17½xd
1/9½		3/7½	Royal Bank of Scotland, Stock	70/6	72/6
1/3	2/3	2/3	Standard Bank of South Africa Ltd. (£2, with £1 paid) ..	42/6	41/6
1/	-	2/	Union Discount Co. of London, Ltd., Stock	55/	55/
2/	—	3/7½	Westminster Bank Ltd. (£4, with £1 paid)	97/	97/
1/3	—	2/6	Do. do. Stock	60/6	60/6

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*Bank-Insurance Units	28/2¾xd	28/8½
*Bank-Units	28/1	28/6½
*Scottish Bank I. & I. T. Units (Scotbits)	37/9	39/6
*Investment-Trust-Units	38/7½	39 xd

* These prices include stamp duty and commission.
† Free of Income Tax.
‡ Australian currency.
|| None on offer.
xd.—Ex Dividend.

BANKERS' MAGAZINE SHARE LIST

INSURANCE

Last Dividend Actual	Total for Year	Total for Previous Year	NAME	Quotations Oct. 15, 1954	Quotations Nov. 15, 1954
14/	24/	22/	Alliance Assurance Co. Ltd. (£20, with £2½ paid)	35	38
14/	24/	22/	Do. do. New Shares (£1)	37	39
1/6	—	15/	Atlas Assurance Co. Ltd. (£1, with 10/ paid)	4¼	4 $\frac{?}{16}$
1/7½†	—	7/6†	Britannic Assurance Co. Ltd., Ord. Stock	6¼	6⅜
2½	5	5	Do. do. 5% tax-free, Cum. Pref. Stock	33/	33/
2/6	5/	4/6	Caledonian Insurance Co. (£1, with 10/ paid)	7	7¾
1/4	—	11/6	Commercial Union Assurance Co. Ltd., Stock	85/	86/3
3/3	5/	4/6	Eagle Star Insurance Co. Ltd., Ordinary (10/)	7¼	7 $\frac{?}{16}$
3/3	5/	4/6	Do. do. Ordinary (£3, with 10/ paid) ..	7	7
4½d.	9d.	9d.	Do. do. 4% Cum. Pref. (£1)	18/6	18/6
4½d.	9d.	9d.	Do. do. 4% 2nd Cum. Pref. (£1) ..	18/6	18/6
7½d.	–	1/7½	Economic Insurance Co. Ltd. (£1, with 5/ paid)	32/6	32/6
1/6	—	4/6	Employers' Liability Assurance Corp. Ltd.	6¼xd	6 $\frac{?}{16}$
2/6†	—	5/†	Equity & Law Life Assurance Soc. (£5, with £1½ paid) ..	16¼	16
3/	—	6/	General Accident, Fire & Life Assurance Corp., Ord. (£1) ..	10	10⅛xd
2½	—	5	General Accident, Fire & Life Assurance Corp., Cum. 5% Pref. (£1)	22/6	22/6xd
3/6	6/	5/	Guardian Assurance Co. Ltd., Ord. (£1)	8¼	9¼
2/	—	4/	Do. do. do. Pref. (£5% non-Cum.) (£4) ..	84/6	84/6
4/3	6/9	6/9	Legal & General Assurance Soc. Ltd. (£1, with 5/ paid) ..	15	16
1/6	—	4/6	Licenses & General Insce. Co. Ltd., Ord. (£1, with 10/ paid)	6⅞xd	6½
2	4/	4	Liverpool & London Globe Insce. Co. Ltd., 4% Perp. Deb. Stk.	95½	96xd
3/6	—	6/6	London & Lancashire Ins. Co. Ltd., Stock	9½	9 $\frac{?}{16}$xd
11/†	11/†	10/†	London & Manchester Assce. Co. Ltd. (£1)	23	23¼
13/9	20/	18/9	London Assurance, Ord. (£2½)	30	31½
4½d.	9d.	9d.	Do. do. 4% Cum. Pref. (£1)	18	18/6
5/	10	10/	North British & Mercantile Insce. Co. Ltd., Ord. (£1¼) ..	15¼	16
2	4	4	Do. do. do. do. 4% Pref. Stock (Non-Cum.)	92½	92½
8/6	—	20/	Northern Assurance Co. Ltd., Ord. (£10, with £1 paid) ..	34	34¾xd
14/4·209	18/10·209	17/0·716	Do. do. Participating Pref. (£7½) ..	30½	30½
4/†	—	12/†	Pearl Assurance Co. Ltd., Ord. (£1)	24½	23
7½d.	1/2	1/2	Do. do. 6% (Tax free), Cum. Pref. (£1) ..	37/6	37/6
8/6	17/	17/	Phœnix Assurance Co. Ltd. (£10, with £1 paid)	24½	25¼xd
8/6	17/	17/	Do do. (£1)	25	25¼xd
2/3	2/3	2/3	Planet Assurance Co. Ltd., Ord. (£1, with 10/ paid)	60	62/6
1/	2	2/	Provincial Insurance Co. Ltd., 10% Cum. Pref. (£1)	40	40
6d.	1	1/	Do. do. do. 25% Cum. Pref. (4/)	21	21
7/6†	22/6†	21/†	Prudential Assurance Co. Ltd., "A" Shares (£1)	44½	43
2/6†	2/6†	2/†	Do. do. do. "B" shares (£1, with 4/ paid)	6½	6⅝
3	3/	2/6	Reinsurance Corp. Ltd. (£1, with 12/6 paid)	86/3	84/6
2/	—	10/	Royal Exchange Assurance, Stock	8½	8½
5/9	—	11/	Royal Insurance Co. Ltd., Stock	17¼	16
4/		7/	Scottish Union & National Ins. Co., "A" Shares (£10, with £1 paid)	11	11¼
15		26/3	Scottish Union & National Ins. Co., "B" Shares (£5, with £3¾ paid)	38½	40¼
2/	—	5	Sea Insurance Co. Ltd. (£1)	6½	7
2/10	5	5	Sun Insurance Office Ltd. (£1, with 10/ paid)	7¼	8¼
1/9†	—	3/6†	Sun Life Assurance Society (£1)	13½	13
1	1/	1	Victory Insurance Co. Ltd., Ord. (16/ with 6/ paid)	46/3	45/
2/	2	1/10½	World Auxiliary Insce. Corp. Ltd. (£1, with 10/ paid) ..	46/3	51/3
3/3	..	8/	Yorkshire Insurance Co. Ltd. (£2½, with 10/ paid)	13¼xd	13½
6/6	.	16/	Do. do. (£1)	25¼xd	26½

*Insurance-Units	31/1	32/1½
*Conbits	19/3	20

* These prices include stamp duty and commission.
† Free of Income Tax.
xd.—Ex Dividend.

Bank Reports, Meetings, etc.

BANK OF NEW ZEALAND

THE profits for the year ended March 31, 1954, after providing for expenses of management, taxation, and for all bad and doubtful debts and other contingencies, and after making provision for the annual donation to the Provident Fund, are £446,076 15*s.* 2*d.*; to which has to be added :—Balance brought forward from last year, £525,498 7*s.* 10*d.*—£971,575 3*s.* 0*d.* From which has been paid :—Dividend on preference " A " shares, £46,250; interim dividend on " C " long-term mortgage shares, £6,503 18*s.* 1*d.*; interim dividend on " D " long-term mortgage shares, £16,259 15*s.* 3*d.*; interim dividend on preference " B " shares, £18,750; interim dividend on ordinary shares, £112,500—£200,263 13*s.* 4*d.*; leaving available for distribution £771,311 9*s.* 8*d.* This the directors propose should be disposed of as follows :—Dividend on " C " long-term mortgage shares at 6 per cent. per annum, £7,031 5*s.* 0*d.*; *reduced by 1*d.* for every 13½*d.* or part thereof, £527 6*s.* 11*d.*—£6,503 18*s.* 1*d.*; dividend on " D " long-term mortgage shares at 7½ per cent. per annum, £17,578 2*s.* 6*d.*; *reduced by 1*d.* for every 13½*d.* or part thereof, £1,318 7*s.* 3*d.*—£16,259 15*s.* 3*d.*; dividend on preference " B " shares (making £43,750 for the year), £25,000; dividend at rate of 4 per cent. on ordinary shares (making £262,500 for the year, equal to 7 per cent.), £150,000; leaving balance to be carried forward, £573,547 16*s.* 4*d.*—£771,311 9*s.* 8*d.*

Balance Sheet as at March 31, 1954

LIABILITIES†

	£	s.	d.
Capital—			
Preference " A " fully paid £1 shares	£500,000	0	0
" C " long-term mortgage fully paid £1 shares	234, 375	0	0
" D " long-term mortgage fully paid £1 shares	468,750	0	0
Preference " B " fully paid £1 shares	1,375,000	0	0
Ordinary fully paid £1 shares	3,750,000	0	0
	£6,328,125	0	0
Reserve fund	3,575,000	0	0
Long-term mortgage debenture stock	750,000	0	0
Deposits	124,564,898	9	6
Balance due to other banks	60,755	17	8
Bills payable and other liabilities (including provision for contingencies)	8,062,048	19	8
Provision for taxes	890,500	0	0
London Office acceptances under credits	212,045	6	10
Balance of profit and loss	771,311	9	8
	£145,214,685	3	4

ASSETS†

	£	s.	d.
Coin, reserve bank notes and deposits with bankers	£32,548,664	9	3
Government notes—Commonwealth, Fijian and Western Samoan	566,876	16	3
Balances due by other banks	658,219	10	9
Money at call and short notice, Government securities and other securities in London	12,019,259	18	4
Bills receivable in London and in transit	2,245,218	6	5
Securities of, or guaranteed by, New Zealand Government	11,471,368	9	8
Australian Government securities	666,857	12	4
Fijian Government securities	206,208	5	11
Municipal and other local bodies' securities	1,749,375	14	2
Remittances in transit between branches	10,578,135	2	10
	£72,710,184	5	11
Bills discounted	3,008,554	18	0
Other advances and securities and debts due to the bank, after deducting provision for bad and doubtful debts	65,260,564	6	8
Landed property, premises, etc.	2,224,758	2	3
Liabilities of customers for acceptances, per contra	212,045	6	10
Long-term mortgage department	1,798,578	3	8
	£145,214,685	3	4

*Reduction on account of New Zealand Social Security Charge in pursuance of Section 9 Finance Act, 1941 (No. 2).
†All assets and liabilities are expressed in New Zealand currency.

THE BRITISH LINEN BANK

The net profit for the year to September 30, 1954, after providing for taxation and after deducting transfers to inner reserves, out of which reserves full provision has been made for diminution in value of assets, was £292,368; the balance brought forward was £192,401; together £484,769. There has been applied in payment of the dividend for the half year to March 31 at the rate of 16 per cent. per annum, £100,000; *less* income tax, £45,000—£55,000. The directors recommend that there be paid on November 30 a dividend for the half year to September 30 at the rate of 10 per cent. actual (making with the earlier payment a distribution of 18 per cent. for the year), £125,000; *less* income tax, £56,250—£68,750; and that there be transferred to staff pension fund, £85,750, and to contingency account, £75,000—£284,500; leaving to be carried forward, £200,269.

Balance Sheet, September 30, 1954

LIABILITIES

Capital:—Authorised £1,500,000			
Issued			£1,250,000 0 0
Reserve fund			2,500,000 0 0
Profit and loss account balance			200,269 0 0
			£3,950,269 0 0
Notes in circulation			10,862,930 0 0
Current, deposit and other accounts (including reserves for contingencies		£87,031,455 0 0	
Balances in account with Barclays Bank Limited and its other associated banks		412,797 0 0	
			87,444,252 0 0
Dividend payable on November 30, 1954, *less* tax			68,750 0 0
Acceptances, guarantees, indemnities, etc., for account of customers			5,244,254 0 0
			£107,570,455 0 0

ASSETS

Coin, Bank of England notes, notes of other banks and balance with Bank of England		£12,037,605 0 0	
Cheques in course of collection		5,879,662 0 0	
Money at call and short notice		13,025,000 0 0	
Bills discounted: British Government			
Treasury bills	£2,000,000 0 0		
Other bills	152,140 0 0		
		2,152,140 0 0	
			£33,094,407 0 0
Investments:—			
Quoted securities of, or guaranteed by, the British Government (*See* Note 1)		£45,652,952 0 0	
Unquoted securities: public authority mortgages, at cost		560,000 0 0	
Trade investments at cost or under (with uncalled liability £82,500)		107,500 0 0	
			46,320,452 0 0
Advances to customers and other accounts (*less* provision for doubtful debts)		£21,354,569 0 0	
Balances in account with Barclays Bank Limited and its other associated banks		645,664 0 0	
			22,000,233 0 0
Bank premises and other property at cost, *less* amounts written off			911,109 0 0
Customers' liability for acceptances, guarantees and indemnities			5,244,254 0 0
			£107,570,455 0 0

Notes:—

1. The investments in British Government securities, all of which are redeemable at fixed dates, have been included at under cost and below redemption price. Their market value at the prices ruling at September 30, 1954, was in excess of the figure at which they stand in the balance sheet.
2. Provision for United Kingdom taxation in respect of the profits to date has been made in the above accounts.
3. Foreign currencies have been converted into sterling at the rates ruling on September 30, 1954.
4. Contracts for outstanding capital expenditure amount approximately to £24,250.

December, 1954

THE ENGLISH, SCOTTISH AND AUSTRALIAN BANK LIMITED

Net profit for the year ended June 30, 1954, is £254,982. Deduct appropriations—Officers' Provident Fund, £45,000; interim dividend paid May 31, 1954, at the rate of 2*s.* 0*d.* per share, *less* United Kingdom income tax at the rate of 9*s.* 0*d.* in the £, £55,000; proposed final dividend payable December 9, 1954, at the rate of 5*s.* 0*d.* per share, *less* United Kingdom income tax at the rate of 9*s.* 0*d.* in the £, £137,500—£237,500; unappropriated balance, £17,482. *Add*—Balance brought forward from last year, £372,449. Balance carried forward to next year, £389,931. All figures in these accounts are expressed in English Pounds.

Balance Sheet as at June 30, 1954

I. Share Capital and Reserves—						
Authorised and issued—1,000,000 shares at £5 per share				£5,000,000	0	0
Paid up—1,000,000 shares at £5 per share	£5,000,000	0	0			
General reserve	1,000,000	0	0			
Profit and loss account	389,931	0	0			
Reserve for estimated future liability for United Kingdom income tax 1955–56	293,069	0	0			
				£6,683,000	0	0
II. Current Assets—						
Cash in hand, bank balances and cash in transit	£7,617,611	0	0			
Money at Call	425,000	0	0			
Cheques in course of collection	8,692,816	0	0			
Treasury bills—British Government	1,000,000	0	0			
—Australian Government	3,988,036	0	0			
Special account with Commonwealth Bank of Australia	21,134,197	0	0			
Bills receivable in hand and in transit	6,972,193	0	0			
Investments at or under market value—						
Quoted in London—						
British Government securities	1,636,667	0	0			
Australian Government securities	475,021	0	0			
Quoted in Australia—						
Australian Government securities	3,979,975	0	0			
Other Australian securities	924,416	0	0			
	£56,845,932	0	0			
Advances, net outstandings under hire purchase contracts and other accounts (*less* provision for bad and doubtful debts)	60,873,261	0	0			
				£117,719,193	0	0
Deduct:—						
III. Current Liabilities—						
Deposits, current accounts, bills payable and other liabilities (including contingencies and capital reserves)	£110,190,778	0	0			
Notes in circulation	796	0	0			
Balances due to other banks	1,859,592	0	0			
Amounts due to subsidiary companies	10,781	0	0			
Australian income tax on profit for the year	266,932	0	0			
United Kingdom taxation (including income tax liability 1954–55)	247,140	0	0			
Proposed final dividend	137,500	0	0			
				112,713,519	0	0
				£5,005,674	0	0
Add:—						
IV. Fixed Assets—						
Banking and other premises, furniture and sites at cost, *less* amounts written off				1,500,441	0	0
Investments in subsidiary companies, at cost				176,885	0	0
				£6,683,000	0	0

NOTE.—Liabilities on acceptances and contingent liabilities entered into on behalf of customers in the normal course of business in respect of confirmed letters of credit, guarantees and forward exchange contracts, etc., amount to £15,459,082.

BANK OF ENGLAND—ANALYSIS OF RETURNS

Date	Notes in Circulation	Gold Coin and Bullion	Government Securities in Banking Department	Other Securities in Banking Department	Discounts and Advances	Public Deposits †	Other Deposits: Bankers	Other Deposits: Other Accounts	Total Deposits	Reserve	Proportion of Reserve to Liabilities	* Rate of Discount
1954	£	£	£	£	£	£	£	£	£	£	%	%
June 30	1,647,428,299	2,613,862	360,924,439	13,668,501	11,744,709	19,265,109	307,742,860	71,342,609	398,350,578	30,185,563	7·5	3
July 7	1,661,664,096	2,616,642	349,389,439	13,635,658	7,20[illegible],065	27,100,502	273,962,832	66,885,961	367,952,295	15,952,546	4·3	,,
,, 14	1,675,996,045	2,626,727	323,356,629	13,895,766	7,793,713	23,628,858	287,694,077	67,120,686	378,443,621	51,630,682	13·6	,,
,, 21	1,701,273,046	2,616,544	337,096,629	13,877,583	8,808,713	21,428,801	277,519,491	68,889,743	367,838,035	26,343,498	7·1	,,
,, 28	1,715,828,844	2,632,656	324,911,629	13,805,207	8,232,000	25,066,224	269,084,102	71,294,557	365,444,883	36,803,812	10·0	,,
Aug. 4	1,716,917,875	2,621,056	329,351,629	13,721,998	5,767,000	25,502,973	273,740,439	66,967,194	366,210,606	35,703,181	9·7	,,
,, 11	1,695,486,058	2,617,695	289,556,629	13,602,265	7,560,000	15,423,072	270,848,763	63,224,566	349,496,401	57,131,637	16·3	,,
,, 18	1,670,527,136	2,660,612	333,491,629	13,770,421	5,015,000	15,275,610	274,214,479	76,514,075	366,004,164	32,133,476	8·7	,,
,, 25	1,653,967,835	2,655,021	296,411,629	13,697,754	6,985,000	16,285,529	267,212,856	63,849,226	347,347,611	48,687,186	14·0	,,
Sept. 1	1,649,903,273	2,640,683	319,521,629	14,550,272	9,475,000	18,277,509	266,677,340	67,861,041	352,815,890	27,737,410	7·8	,,
,, 8	1,647,726,660	2,658,626	318,376,629	14,691,558	7,145,000	19,825,954	265,483,742	66,346,356	351,656,052	29,931,966	8·5	,,
,, 15	1,642,629,269	2,655,839	321,601,629	14,782,710	14,675,074	21,200,143	280,434,828	65,958,245	367,593,216	35,026,570	9·5	,,
,, 22	1,638,026,815	2,658,439	321,826,629	14,753,783	5,720,074	16,023,440	280,312,772	67,073,913	363,410,125	39,631,624	10·9	,,
,, 29	1,635,381,045	2,654,636	322,656,629	14,964,226	6,468,934	22,716,206	276,138,178	68,960,932	367,815,316	42,273,591	11·4	,,
Oct. 6	1,639,440,960	2,665,442	325,476,629	14,275,101	8,628,856	27,417,997	275,992,469	65,490,892	368,901,358	38,224,482	10·3	,,
,, 13	1,637,886,901	2,669,665	331,151,629	14,442,805	1,943,856	23,982,468	280,978,982	64,618,813	369,580,263	39,782,754	10·7	,,
,, 20	1,636,073,402	2,671,363	334,361,629	14,542,312	4,728,856	15,808,663	294,672,118	66,980,132	377,460,913	41,597,961	11·0	,,
,, 27	1,635,946,948	2,675,598	336,496,629	14,647,809	2,052,256	16,055,144	295,618,831	65,434,231	377,108,206	41,728,650	11·0	,,
Nov. 3	1,643,645,643	2,673,769	332,876,629	14,450,319	9,837,856	18,466,476	290,565,417	64,316,180	373,348,073	34,028,126	9·1	,,
,, 10	1,647,671,106	2,688,736	346,496,629	14,644,890	7,627,856	20,460,769	295,791,018	64,654,720	380,906,507	30,017,630	7·8	,,
,, 17	1,648,175,076	2,704,215	350,756,629	14,636,802	4,327,856	21,700,069	293,766,976	65,860,257	381,327,302	29,529,139	7·7	,,

* The figures of the Returns are those of the Wednesday on which the Returns are dated but except when otherwise stated the dates of the change in the Official Rate of Discount apply to the following day (Thursday).
† This figure includes H.M. Treasury Special Account.

MONTHLY STATEMENT OF BALANCES OF LONDON CLEARING BANKS

(000's omitted)

October, 1954 Date:	Barclays 20th	Coutts and Co 20th	District 20th	Glyn, Mills & Co. 20th	Lloyds 20th	Martins 20th	Midland 20th	National 19th	National Provincial 20th	Westminster 20th	Williams Deacon's 20th	Aggregates
ASSETS	£	£	£	£	£	£	£	£	£	£	£	£
Coin, Bank Notes and Balances with the Bank of England	112,506	4,512	20,493	4,858	97,518	24,517	111,418	7,156	65,577	72,085	11,343	531,983
Balances with and Cheques in course of collection on other Banks in the U.K. and Republic of Ireland	47,500	2,191	10,384	3,841	39,716	15,857	49,249	1,141	26,428	32,510	5,935	234,752
Items in Transit	—	—	—	—	11,600	—	—	—	—	—	—	11,600
Money at Call and Short Notice	92,424	4,804	14,676	11,908	73,015	23.202	84,688	14,824	55,222	50,721	11,723	437,207
Treasury Bills Discounted	252,475	7,600	43,590	5,170	237,630	44,970	279,446	2,000	162,040	158,995	18,500	1,212.416
Other Bills Discounted	25,387	251	577	491	8,476	3,465	33,455	3,994	3,503	2,994	547	83,140
Investments at Book Value	513,307	18,404	97,822	21,738	438,785	112,440	489,812	28,292	282,794	310,414	49,897	2,363,705
Advances to Customers and other Accounts	367,316	16,950	60,912	19,894	312,938	95,404	377,591	30,356	258,355	243,748	40,440	1,823,904
Liabilities of Customers for Acceptances, Endorsements, etc.	45,749	2,306	26,821	7.033	99,926	15,214	53,168	425	35,810	76,900	11,906	375,258
Bank Premises Account	9,865	405	1,537	695	8,606	4,286	8,763	441	6,526	5,816	1,130	48,070
Investments in Affiliated Banks and Subsidiary Companies	13,857	—	—	—	4,346	100	8,866	—	2,304	3,09_	—	32,565
	1,480,386	57,423	276,812	75,628	1,332,556	339,455	1,496,456	88,629	898,559	957.275	151,421	7,154,600
Ratio of Cash to Current, Deposit and other Accounts	8·04	8·49	8·43	7·34	8·12	7·81	7·89	8·45	7·80	8·38	8·40	8·05
LIABILITIES												
Capital Paid up	22,915	1,000	2,976	1,200	15,810	4,315	15,159	1,500	9,479	9,320	2,275	85,949
Reserve Fund	12,750	1,000	3,800	1,200	16,500	6,000	15,158	1,435	12,250	10,920	2,275	83,288
Current, Deposit and other Accounts	1,398,972	53,117	243,215	66,195	1,200,311	313,908	1,412,971	84,669	841,020	860,119	134,965	6,609,462*
Acceptances, Endorsements, etc.	45,749	2,306	26.821	7,033	99,926	15,214	53,168	425	35,810	76,900	11,906	375,258
Notes in Circulation	—	—	—	—	9	18	—	600	—	16	—	643
	1,480,386	57,423	276,812	75,628	1,332,556	339,455	1,496,456	88,629	898,559	957,275	151,421	7,154,600

* Current Accounts, £4,213,602 Deposit and other Accounts, £2,395,860.

PROVINCIAL CLEARING-HOUSE RETURNS

[000's omitted]

Date	Birmingham	Bradford	Bristol	Hull	Leeds	Leicester	Liverpool	Manchester	Newcastle-on-Tyne	Nottingham	Sheffield	Southampton
	£	£	£	£	£	£	£	£	£	£	£	£
1953												
October	17,316	19,501	5,569	6,589	11,291	8,409	51,035	38,868	14,516	4,683	8,792	1,401
November	21,999	15,855	5,285	5,662	10,381	7,925	44,324	37,371	14,457	4,407	10,074	1,347
December	20,914	18,746	5,293	5,575	10,209	8,570	51,311	39,531	17,713	4,226	9,684	1,374
1954												
January	29,028	19,848	6,816	7,515	14,376	10,613	53,658	42,543	18,255	5,652	10,641	1,743
February	24,142	14,421	5,532	6,190	11,509	8,028	46,753	38,433	17,123	4,332	9,265	1,537
March	21,315	19,183	5,984	6,199	11,560	9,867	54,818	41,860	15,395	4,374	9,478	1,402
April	19,041	18,778	5,313	5,510	10,457	8,180	47,077	38,048	14,045	4,214	9,434	1,367
May	25,586	18,813	5,961	6,577	11,998	8,641	56,518	43,367	16,039	4,673	10,411	1,518
June	19,491	16,917	5,310	5,701	10,872	8,440	49,127	36,066	13,529	4,201	9,460	1,458
July	26,166	18,905	5,609	6,157	12,263	9,382	56,181	40,545	15,970	4,997	10,862	1,601
August	24,651	12,449	4,839	5,251	9,767	6,622	46,705	37,475	12,573	4,347	9,103	1,299
September	18,938	16,605	5,070	5,358	9,955	7,562	49,990	36,841	12,947	4,345	7,891	1,237
October	20,290	17,618	5,354	5,722	11,407	9,005	54,162	41,018	15,279	4,814	8,950	1,341

YEARLY PROVINCIAL CLEARING-HOUSE RETURNS

[000's omitted]

Date	Birmingham	Bradford	Bristol	Hull	Leeds	Leicester	Liverpool	*Manchester	Newcastle-on-Tyne	†Nottingham	‡Sheffield	Southampton
1942	128,228	106,344	101,364	38,787	57,197	43,611	239,347	621,956	75,702	24,062	43,603	5,891
1943	108,783	197,143	33,390	29,518	57,327	41,392	235,639	415,508	79,768	22,353	47,081	6,637
1944	90,201	94,055	34,139	30,403	59,912	41,451	264,679	170,732	88,596	21,004	47,861	8,310
1945	93,355	99,623	35,653	39,255	64,149	46,034	287,332	186,828	95,648	24,219	47,627	9,969
1946	156,640	114,317	37,332	49,889	76,955	57,819	331,808	225,032	111,429	30,357	56,007	10,832
1947	169,375	115,669	41,898	58,731	86,305	68,139	338,747	299,739	115,902	34,750	70,971	12,871
1948	181,814	143,480	42,129	65,318	103,883	73,284	488,353	379,963	126,786	38,411	80,633	13,301
1949	174,224	163,140	42,670	65,141	115,195	81,320	574,464	401,522	134,305	40,083	80,240	13,280
1950	190,365	219,707	44,917	67,074	119,829	86,665	634,248	439,788	132,766	43,736	83,444	13,745
1951	223,924	240,585	59,430	76,999	129,539	96,431	644,373	507,883	143,542	49,151	95,872	16,408
1952	226,701	175,907	63,248	76,104	124,499	91,371	544,082	417,029	165,857	50,704	100,674	16,855
1953	230,589	210,190	64,051	76,314	129,927	96,141	537,462	436,534	181,809	53,504	106,535	17,043

* Area extended from July 1, 1947. † Area extended from May 5, 1947. ‡ Area extended from June 9, 1947.

LONDON BANKERS' CLEARING-HOUSE RETURNS

Month	Town Clearing	General Clearing	Total for the Month
1952	£	£	£
October	7,438,000,000	2,459,000,000	9,897,000,000
November	6,471,000,000	2,338,000,000	8,809,000,000
December	6,797,000,000	2,357,000,000	9,154,000,000
1953			
January	8,745,000,000	2,671,000,000	11,416,000,000
February	6,938,000,000	2,243,000,000	9,181,000,000
March	7,783,000,000	2,436,000,000	10,219,000,000
April	7,579,000,000	2,342,000,000	9,921,000,000
May	6,851,000,000	2,480,000,000	9,330,000,000
June	7,425,000,000	2,323,000,000	9,747,000,000
July	8,709,000,000	2,572,000,000	11,281,000,000
August	6,465,000,000	2,176,000,000	8,641,000,000
September	8,445,000,000	2,401,000,000	10,846,000,000
October	9,459,000,000	2,649,000,000	12,108,000,000
November	7,641,000,000	2,384,000,000	10,026,000,000
December	8,030,000,000	2,627,000,000	10,657,000,000
1954			
January	9,554,000,000	2,734,000,000	12,288,000,000
February	7,437,000,000	2,351,000,000	9,788,000,000
March	9,639,000,000	2,638,000,000	12,277,000,000
April	8,583,000,000	2,483,000,000	11,066,000,000
May	9,675,000,000	2,601,000,000	12,276,000,000
June	10,918,000,000	2,592,000,000	13,510,000,000
July	11,549,000,000	2,806,000,000	14,354,000,000
August	8,062,000,000	2,380,000,000	10,443,000,000
September	9,466,000,000	2,504,000,000	11,970,000,000
October	8,593,000,000	2,739,000,000	11,332,000,000

SCOTTISH CIRCULATION RETURNS

AVERAGE CIRCULATION AND COIN HELD DURING THE FOUR WEEKS ENDED SATURDAY, OCTOBER 16, 1954

Name of Bank	Authorised Circulation	Average Circulation during Four Weeks ended as above			*Average Amount of Bank of England Notes and Coin held during Four Weeks ended as above
		£5 and upwards	Under £5	Totals	
	£	£	£	£	£
1 Bank of Scotland	396,852	8,451,291	4,919,859	13,371,150	13,760,748
2 Royal Bank of Scotland	216,451	6,995,597	5,948,840	12,944,437	13,643,251
3 British Linen Bank	438,024	6,755,807	4,195,874	10,951,681	11,281,103
4 Commercial Bank of Scotland	374,880	11,067,035	6,056,267	17,123,302	18,231,933
5 National Bank of Scotland	297,024	6,991,437	4,241,448	11,232,885	11,945,979
6 Union Bank of Scotland	454,346	5,488,455	3,923,390	9,411,845	9,804,605
7 Clydesdale and North of Scotland Bank	498,773	15,354,777	5,789,489	21,144,266	22,247,646
Totals	**2,676,350**	**61,104,399**	**35,075,167**	**96,179,566**	**100,915,265**

Each of the Bankers named in the above Return, who have in Circulation an amount of notes beyond that authorised in their Certificate, have held an amount of Bank of England Notes and Gold and Coin other than Gold Coin not less than that which they are required to hold during the period to which this Return relates.

* This column includes Bank of England Notes deposited at the Bank of England which, by virtue of Sec. 9 (1) of the Currency and Bank Notes Act, 1928, are to be treated as gold coin held by the Bank.

IRISH CIRCULATION RETURNS

NORTHERN IRELAND

Average Circulation and Coin held during the Four Weeks ended Saturday, October 16, 1954

Name of Bank	Authorised Circulation	Average Circulation during Four Weeks ended as above: £5 and upwards	Under £5	Totals	*Average Amount of Bank of England Notes and Coin held during Four Weeks ended as above
	£	£	£	£	£
1 Bank of Ireland	†754,000	1,621,914	296,977	1,918,891	1,258,787
2 Provincial Bank of Ireland	†246,834	1,236,752	282,005	1,518,757	1,465,290
3 Belfast Banking Company	350,000	1,058,006	70,834	1,128,840	1,693,238
4 Northern Bank	244,000	1,551,359	69,717	1,621,076	1,924,535
5 Ulster Bank	290,000	1,449,170	94,198	1,543,368	1,692,477
6 National Bank	†124,045	573,102	29,001	602,103	516,566
Totals	**2,008,879**	**7,490,303**	**842,732**	**8,333,035**	**8,550,893**

Each of the Bankers named in the above Return, who have in circulation an amount of Notes beyond that authorised by the Bankers (Northern Ireland) Act, 1928, have held an amount of Bank of England Notes and Gold Coin and Coin other than Gold Coin not less than that which they are required by the Treasury to hold during the period to which this return relates.

† These amounts are the latest amounts approved by the Treasury.
* This column includes Bank of England Notes deposited at the Bank of England which, by virtue of Sec. 9 (1) of the Currency and Bank Notes Act, 1928, are to be treated as gold coin held by the Bank.

CENTRAL BANK OF IRELAND

Legal Tender Note Fund as at October 16, 1954

Issue Account

	£	s.	d.		£	s.	d.
Outstanding as at end of previous week	69,311,366	0	0	Redeemed during week ended October 16, 1954	802,267	0	0
Issued during week ended October 16, 1954	1,088,545	0	0	Outstanding as at October 16, 1954	69,597,644	0	0
	£70,399,911	**0**	**0**		**£70,399,911**	**0**	**0**

FOREIGN BANK RETURNS

BANK OF FRANCE

Francs (000,000's omitted)

Date	Gold	Private Discounts and Advances	Advances to State: In Occupation Costs	Treasury Advances	Fixed Advances	Special Advances	Notes	Deposits
Oct. 14	201,282	1,320,633	426,000	195,000	53,849	156,800	2,419,944	108,434
„ 21	201,282	1,287,138	426,000	195,000	53,849	127,600	2,386,339	107,618
„ 28	201,282	1,303,471	426,000	195,000	53,849	146,400	2,428,122	119,597
Nov. 4	201,282	1,290,580	426,000	195,000	53,849	158,500	2,447,284	110,281
„ 10	201,282	1,284,154	426,000	195,000	53,849	150,700	2,436,315	103,773
1953								
Nov. 12	201,282	1,131,459	426,000	200,000	53,849	173,200	2,202,036	130,391

FOREIGN BANK RETURNS—(*continued*)

U.S. FEDERAL RESERVE BANKS

Dollars (000,000's omitted)

Date	Total Gold Reserves	Total Cash Reserves	Total U.S. Govt. Securities	Total Bills and Advances	Total Reserves
Oct. 6 . . .	21,126	453	24,581	24,837	50,242
„ 13 . . .	21,124	438	24,609	24,922	50,692
„ 20 . . .	21,071	470	24,456	24,788	50,781
„ 27 . . .	21,069	490	24,381	24,687	50,243
Nov. 3 . . .	21,079	457	24,670	25,190	50,512
1953					
Nov. 4 . . .	20,897	330	25,447	26,271	51,514

Date	F.R. Notes in Circulation	Member Bank Reserve Deposits	Government Deposits	Total Deposits	Excess Member Bank Reserve Deposits	Reserve Ratio %
Oct. 6 . . .	25,647	18,875	625	20,483	774	45·8
„ 13 . . .	25,729	18,620	643	20,149	590	46·0
„ 20 . . .	25,667	19,037	601	20,447	903	45·7
„ 27 . . .	25,614	18,888	588	20,292	730	45·9
Nov. 3 . . .	25,739	18,998	567	20,406	830	45·7
1953						
Nov. 4 . . .	26,150	19,779	664	21,271	967	44·1

U.S. FEDERAL RESERVE BANKS AND TREASURY COMBINED

Date	Monetary Gold Stock	Treasury and Bank Currency	Money in Circulation	Treasury Cash and Deposits with F.R. Banks
Oct. 6 . .	21,810	4,971	30,051	1,424
„ 13 . . .	21,810	4,973	30,159	1,435
„ 20 . . .	21,759	4,973	30,055	1,404
„ 27 . . .	21,759	4,973	29,970	1,404
Nov. 3 . . .	21,759	4,977	30,138	1,368
1953				
Nov. 4 . . .	22,076	4,877	30,428	1,947

GERMAN FEDERAL REPUBLIC

COMBINED RETURN OF THE BANK DEUTSCHER LÄNDER AND THE LAND CENTRAL BANKS
(in DM million)

Date	Gold	Credit Balances at Foreign Banks, Foreign Cash, Bills and Cheques	Inland Bills of Exchange	Advances and Short-Term Lendings to the Federal Government and other Public Authorities	Bank Notes in Circulation	Bank Deposits	Non-Bank Deposits *
Oct. 15 .	2,434·8	8,234·0	1,499·3	123·0	11,216·6	2,663·6	6,387·5
„ 23 .	2,519·0	8,205·5	1,516·2	122·8	10,637·4	3,293·8	6,345·6
„ 30 .	2,514·0	8,259·0	1,545·8	127·1	12,126·7	2,615·6	5,800·5
Nov. 7 .	2,514·0	8,276·0	1,504·5	125·2	11,570·9	3,165·1	5,666·7
1953							
Nov. 7 .	1,227·0	6,371·9	1,856·0	199·5	10,821·3	2,892·8	—

* These figures include purchases of Equalisation Claims by Public Authorities.

INSURANCE AND ACTUARIAL RECORD

Life Office Investments

MR. K. K. WEATHERHEAD, M.A., F.F.A., manager and actuary of the Scottish Mutual Assurance Society, in his presidential address to the Faculty of Actuaries, defended life offices against recent criticism of their investment policies. Although recently there seemed to have been an improvement in the private sector of savings, it is still largely true, said Mr. Weatherhead, that the main channel of savings in this country was through the life offices and pension funds. It is suggested in some quarters that because of this the life offices must take the place which the ordinary investor took before the war, and that they are not doing so; in particular, that they are not providing the risk capital which industry needs.

A life office exists to pay claims as and when they arise and its funds must be invested with this end in view, he pointed out, and added " the first two canons of investment laid down by Bailey in 1862 that the funds should be invested at the highest rate of interest, subject always to the security of the capital, still apply." No two offices, however, have exactly the same problem because the spread of business varies from office to office and in any one office from time to time, and the investment portfolios of the offices should vary accordingly. In this regard, Mr. Weatherhead quoted figures showing that in ten offices at December 31, 1953, the proportion of funds invested in British Government and British Government guaranteed securities, varied from 12 per cent. to 44 per cent., the proportion of total funds so invested being 28 per cent. The proportion invested in mortgages in the United Kingdom varies from 2 per cent. to 35 per cent., the total figure being 11 per cent. The proportion invested in ordinary shares varies from 11 per cent. to 30 per cent., the total being 20 per cent. These figures show how substantial the variations in the investment portfolios of the offices are.

Statistics quoted by Mr. Weatherhead show that the total nominal value of the securities quoted in the *Stock Exchange Official List*, excluding British Funds, rose from £10,249 million in December, 1913, to £11,082 million in March, 1938, but actually fell to just under £8,953 million in April, 1947, whereas British funds rose from £1,013 million in 1913 to £6,848 million in 1938, and to £13,130 million in 1947. The fall in the first set of figures was, of coure, partly accounted for by the nationalisation of the Bank of England and the coal mines. Since then there has been the nationalisation of the railways, the electric power and supply undertakings, the gas industry and the iron and steel industry, with corresponding increases in British Government guaranteed securities. The nominal amount of British funds quoted in the *Stock Exchange Daily Official List* and the *Monthly Supplement of Quoted Securities* as at April, 1954, was £17,492 million and other securities £9,161 million. The practically stationary figure of the nominal amount of other securities over the last seven years indicates that the amount of new issues and so-called bonus issues has just replaced the amounts transferred by nationalisation. Since 1947 the market value of British funds has risen from £13,716 million to £16,105 million while the value of other securities has risen from £11,490 million to £14,398 million.

Unfortunately, Mr. Weatherhead was unable to give comparable figures for the life offices, but returning to the ten offices previously mentioned he said their total funds increased from £194 million in 1937 to £225 million in 1946, and to £318 million in 1953. The figures for ordinary shares are £22 million in 1937, £29 million in 1946,

and £64 million in 1953. During the war years there was, of course, a gentlemen's agreement whereby all new money and maturities were invested in Government securities and that the Government requisitioned most of the overseas securities of the offices, many of which were ordinary shares. A year ago the life offices published authoritative figures which included the statement that " over £360 million (11½ per cent. of total assets) of life office funds are represented by equities, as against £50 million (5 per cent.) in the late 1920's."

With regard to the particular criticism, Mr. Weatherhead said the term " risk capital " is often spoken of as if it were the same thing as " equity capital." When an investor buys an ordinary share in a company on the market he does not provide the company with any capital at all. So far as the company is concerned all that happens is that the shares are registered in the name of C.D. instead of in the name of A.B. On the other hand, if an established company which makes, say, artificial legs wishes to extend its business to make artificial arms, it may raise the necessary money by mortgage on its premises, by selling the premises and leasing them back, by a debenture on the whole undertaking, by preference shares or by ordinary shares, and all the money which is subscribed by the public in whatever form is risk capital so far as the company is concerned. There was no doubt, he declared, that the life offices had played their part in providing the money raised in the post-war years by well-established companies.

The position of the smaller companies, which according to the Industrial Census of 1948 outnumbered the large ones by about 4 to 1, may not be so easy. But the problem is not a new one, and as Mr. Weatherhead pointed out, since the war much has been done for these companies through the formation of the Industrial and Commercial Finance Corporation Ltd., Glasgow Industrial Finance (Development) Ltd., Estate Duties Trust Ltd., and so on, for some of which the offices put up part of the money.

Trustee Departments

A SERIES of three talks was recently given at the Insurance Institute of London for staffs engaged in trustee departments. The talks provide a useful survey of the considerations which arise upon the acceptance of new cases.

Mr. W. G. Nursaw, F.C.I.S., A.C.I.I. (Atlas Assurance), talked on " The Approval of a Draft Will." The lecturer submitted that when asked to approve a draft will, the corporate executor might offer tactful suggestions to prevent possible intestacies arising or to simplify administration, but should limit correction to obvious errors of transcription. He demonstrated clearly the advantages of—

1. Making benefits to a spouse contingent on surviving the testator by one month.
2. Granting the widest investment powers to the corporate trustee.
3. Dividing residue into fractions rather than bequeathing legacies of fixed amounts.

4. Excluding both statutory and equitable apportionments.
5. Including the standard clause for charging fees and, where appropriate, the co-trustee clause.

In the discussion that followed there seemed to be a general willingness to accept the added responsibility of reasonable discretionary trusts, and where inheritance depended upon survival of the beneficiary for one month, to advance the immediate money legacy bequeathed to tide over that period.

Speaking on " Approval of a Draft Settlement," Mr. L. M. Carpenter, F.C.I.I. (Alliance Assurance), mentioned the increasing use of settlements in order to distribute part of an estate before the death of the owner and thus reduce the estate duty payable. The deed should include charging and co-trustee clauses as in the case of wills, and there should be the widest investment powers. To obtain income tax advantages, no interest should be reserved to the settlor and the trusts should be irrevocable. Where protective trusts were introduced it was well to include power for the beneficiary to release his life interest in order to accelerate the interests of his children. The special requirements of the law relating to children's trusts and charitable trusts were outlined. Questions elicited the opinion that trust corporations were not averse to assisting a settlor to reduce tax and estate duty providing his dispositions were not artificial and also that policies under the Married Women's Property Act for the absolute benefit of the wife could be settled by her upon trusts to be administered by the trustee department of the company issuing the policy.

Mr. F. E. Ascott (Eagle Star Insurance) dealt with " Approval of a Debenture Trust Deed." The lecturer outlined the structure of a debenture trust deed and summed up its purpose as enabling a company to borrow from numerous investors upon security given to them through the medium of trustees. The statute law applicable was to be found principally in the Law of Property Act, 1925, the Trustee Act, 1925, and the Companies Act, 1948. Some recommendations of the Cohen Committee should also be observed, particularly as to the duties of trustees. The deed must be identical with the prospectus which preceded it so far as they covered common ground. The limitations of powers of the company to borrow and charge its properties and to grant short leases were matters needing careful wording. The conditions to be endorsed on stock certificates which were often listed in a schedule to the deed might include sinking fund provisions which must be drawn so as to prevent any substantial deviation from the rate of redemption expected by stockholders. Stock purchased by the sinking fund must be cancelled. In the provision for meetings, the notice required should not be less than 14 days. This talk also prompted questions and, in answer, it was suggested that while the 1948 Act had increased the legal liability of trustees, the moral obligations had always been there so that no increase in fees was warranted. Other answers were to the effect that borrowing and charging limits must be made to apply to subsidiary companies and that cumulative sinking funds were built up with gross interest without deduction for income tax.

It may be appropriate here to mention that Mr. R. C. Battams, LL.B., (Executor and Trustee Department, Lloyd's Bank) will be giving a lecture on " The Place of the Trust Corporation in Modern Society " on the evening of March 7, 1955, in the Conference Hall of the Chartered Insurance Institute, 20, Aldermanbury, London, E.C.2.

December, 1954

Insurance Notes

DIVIDENDS OF THE MONTH

The Alliance Assurance Company, in accordance with the indication given in a circular to shareholders of July 30 last, have declared an interim dividend, payable on January 19, 1955, of 12*s*. per share, less tax.

The interim dividend of the Commercial Union Assurance is $1\frac{2}{3}$ points higher at $26\frac{2}{3}$ per cent., whereas a year ago it went up five points, while the final was up $2\frac{1}{2}$ points at $32\frac{1}{2}$ per cent.

Ordinary stockholders of the General Accident Fire and Life Assurance Corporation receive an interim dividend for the year ending December 31, 1954, of 3*s*. per £1 unit. The interim dividend on the preference stock is 6*d*. per £1 unit. Both dividends subject to tax.

For the third year in succession the Guardian Assurance has raised its interim dividend, the amount recently declared being 15 per cent. as compared with $12\frac{1}{2}$ per cent. The directors remind shareholders that this does not necessarily imply any increase in the total payments for 1954. The interim is paid on £1,272,741 ordinary capital, including 30,270 shares of £1 each issued for the acquisition of the Cambrian Insurance Company in October last.

The Legal and General Assurance Society announce an interim dividend for 1954 at the same rate as for previous year, namely, 2*s*. 6*d*. per share, less tax—payable January 1, 1955.

In pursuance of the policy expressed in the governor's statement with the 1953 accounts, The London Assurance is to pay a substantially increased interim dividend in order to divide the year's dividend more evenly as between interim and final. Announcing an interim dividend on the ordinary shares of 10*s*. per share, less tax, the directors warn against any assumption that the increased interim dividend foreshadows an increase in the total distribution for the year.

An interim dividend of 3*s*. 6*d*., less tax, per £1 stock, is declared by the London and Lancashire Insurance Company. The corresponding dividend last year was 2*s*. 3*d*., less tax, per £1 stock.

The interim dividend of the Northern Assurance Company was paid on November 1, last, at the same rate as a year ago, namely 8*s*. 6*d*. per share, less tax.

The rate of interim payment by the Sun Insurance Office is unchanged at $21\frac{3}{8}$ per cent., less tax. The total dividend for 1953 was 50 per cent. The Sun Life Assurance Society's interim payment is increased from 1*s*. 9*d*. to 2*s*. per share, and as usual is paid tax free.

LEVEL PREMIUM PENSION SCHEMES

The Norwich Union Life Assurance Society are improving the terms and conditions for new level annual premium pension schemes. The new terms are in line with the society's "current cost scheme" and the rates are, in fact, calculated on the same basis. The "current cost scheme" has already proved to be highly competitive and the new level premium terms should be of considerable assistance to the society's agents and representatives.

CANADIAN INSURANCE

NET fire insurance premiums written in Canada in 1953 amounted to $145,971,915 compared with $139,777,732 in 1952, according to the report of the Superintendent of Insurance. British companies wrote net premiums of $54,237,199, the balance being divided between Canadian companies ($37,606,740) and foreign companies ($54,127,976). Net casualty premiums totalled $315,908,028 compared with $272,410,189 in 1952. Of the 1953 total Canadian companies wrote $121,296,881, British companies $63,002,423, and foreign companies $131,608,724. The net amount of new life business effected in Canada was $2,554,802,966, of which $481,992,856 was group business, as compared with $2,287,026,644, of which $415,280,781 was group in 1952. Of the new business total, British companies wrote $98,437,715.

INSURANCE PUBLIC RELATIONS

MR. R. T. D. WILMOT, secretary of the British Insurance Association, in an address at the Chartered Insurance Institute's Educational Conference at Harrogate, poised the question " How do we in the insurance world stand on our public relations ? He thought that, by and large, the industry enjoyed the public goodwill, which after all was only fair reward for providing an insurance service which by world standards has never been bettered. After pointing out that the impression made on the public mind was in the main the product of those engaged in the insurance industry, who must remain key men in any public relations effort, Mr. Wilmot said that central public relations has also a part to play in reducing misunderstanding and unfair criticism, and in this way to assist the insurance representative in his relations with policy holders. Insurers, he said, were late in the field of public relations but they gradually came to realise that uninformed criticism was damaging to the interests of a great business which had everything to commend it to the public. Previous to 1949 insurance public relations was confined to certain specialised activities and, broadly speaking, was mainly of a technical nature. Then five years ago, the British Insurance Association, the Life Offices' Association and the Industrial Life Offices' Association started active publicity campaigns. The Life Offices' Association in co-operation with the Associated Scottish Life Offices assumed responsibility for public relations concerned with ordinary life business and similarly the Industrial Life Offices' Association undertook to deal with industrial life business. The British Insurance Association without encroaching upon or interfering with any of the specialised work of the established sectional associations in particular parts of the insurance field, assumed responsibility for the remainder of the central public relations of the insurance companies. To guide its public relations policy the B I.A. set up a powerful public relations committee led by the Chairman and representative of the sectional associations. Lloyd's have, of course, always run their public relations independently, so, too, have the insurance brokers. At first sight, said Mr. Wilmot, it may seem that British insurance speaks with as many voices as there are central insurance organisations. In practice, however, this is not so. Rather an identity of overall interests and a common policy of co-operation result in one voice but many outlets through which that voice speaks to the public.

On a more critical note were the remarks of Mr. R. R. Hunter, A.C.I.I., F.C.I.B., in his presidential address to the Insurance Institute of Newcastle. In reference to insurance public relations he said his own feeling was that " we fail utterly and miserably

to get ourselves across and that we should be thoroughly ashamed of ourselves." There were, he continued, so many misconceptions which were firmly held by so many of the general public and which bred prejudice and hindered progress. Referring to the publicity of insurance companies in this country, Mr. Hunter said there had recently been steps in the right direction, such as the appointment of a public relations officer by the British Insurance Association, but he felt that we still had a long, long way to go. Mr. Wilmot, in his address, mentioned this fact and said that what has been done so far is only a start, and the campaigns have yet to gather momentum. They have yet great fields for expansion—so great, he said, that " scope for further progress is unlimited." It was pure coincidence that these two addresses should have been given within twenty-four hours of each other.

NORTH AMERICAN HURRICANES

WIDESPREAD damage caused by windstorms on the eastern seaboard of America during August, September and October last, will have a marked effect upon the year's underwriting results of British insurers. Cover for such losses is ordinarily given under an extended coverage endorsement attached to a fire policy, and apart from the very substantial volume of business written on these lines for American and British companies operating locally, the London market will be interested to a major extent by reinsurance treaties of every kind, as well as by business written direct. The willingness and ability of the companies to handle windstorm coverages at reasonable premium rates is helped by the readiness of the public to buy the coverage so that there is a satisfactory degree of " spread." This is, of course, a feature of fire insurance also and, as mentioned, wind coverage is almost always provided in conjunction with fire insurance. But it is occasionally demonstrated that normal fire risk is often matched, or even surpassed, in catastrophic importance by the hazards of natural elements.

Such was the case in November, 1950, when a succession of severe windstorms culminated in a hurricane which affected so vast an area as eleven north-eastern States. As a result, British companies operating in the United States and Lloyd's underwriters by way of reinsurance were presented with claims aggregating some £17,000,000, and representing roughly one-half of the total insured loss. And now another punishing year for British insurers underwriting windstorm risks in America. Of a series of tropical storms this year, three major hurricanes, " Carol," " Edna," and " Hazel,"—to give them their code names—may involve the London market alone in insurance payments exceeding $100 million. In the case of " Carol " which struck the New England states and Long Island at the end of August, the actual damage done has been estimated at some hundreds of millions of dollars, but even now it is impossible to put any reliable estimate on the insurance loss. A large part of the damage in the state worst affected, Massachusetts, was caused by flood and rising water, and so will not be covered by insurance, while the deductible (a compulsory excess) introduced into extended coverage, in the light of earlier experience, will restrict many of the losses under insurance policies. The second major hurricane, known as " Edna," occurred in early September and affected principally Long Island, Massachusetts and Maine, as well as Canada and Nova Scotia. Fortunately, the damage done by " Edna " proved less extensive than that caused by " Carol." Hurricane " Hazel " arrived off the coast of Florida in October and swept through the coastal areas of South and North Carolina, the state of Virginia and the

Chesapeake Bay area, the centre of Pennsylvania, across the western tip of New York state and passed over the lakes to Toronto. Extensive damage was caused in each state, that in Toronto being reported at $100 million. A long time must always elapse before the insurance losses arising from such widespread devastation can be assessed with any degree of accuracy. While, therefore, the impact of these catastrophes will fall heavily upon insurance accounts for the current year, it is likely to be well into 1955 before insurers are able to calculate the final effect of the disasters.

INSURANCE PLAN FOR MOTOR WORKERS

AN £8 million insurance plan for workers of the British Motor Corporation has been announced. The scheme is non-contributory and applies to members of the corporation's staff not already members of staff pension funds. Some 45,000 workers will benefit.

Introducing the scheme, the Chairman, Sir Leonard Lord, said that the State pension schemes provided no cash on retirement and no lump sum on death before retirement. The corporation's scheme provides that non-staff male employees who are aged 25 or over and under 60 (55 in the case of women) and have been in the service of a B.M.C. company for a continuous period of three years or more will on retirement at 65 (women at 60) receive £10 in cash for each year of qualifying service. Thus, a male non-staff employee starting at the age of 25 or less and remaining in the corporation's service until he is 65 will receive a cash sum of £400. If a non-staff employee who has qualified dies while still in the corporation's service, but before reaching 65 (60 for women), the amount that would have been paid at the retiring age will be paid immediately to dependants. The scheme also provides for the cash to be exchanged for a pension. Employees who do not qualify for any of the benefits will be covered free of cost for a death benefit of £100. Employees who are now over 60 (women 55) and can therefore never qualify for the cash benefit will be covered by a life benefit of £100 and will at the time of their retirement be considered for benefits. The assurance for the new scheme is being shared by three offices, the Northern Assurance Company, the Legal and General Assurance Society and the Crusader Insurance Company.

NINE MONTHS FIRE LOSSES

FIRE losses in the United Kingdom and Eire for the first nine months of the current year are estimated by *The Times* at £19,195,000, against £18,407,000 at the same date in 1953, and a corresponding figure of £18,286,000 in 1952.

In the United States of America, fire losses for the first nine months of the year are estimated by the *National Board of Fire Underwriters* at $664,772,000, against $683,345,000 for the corresponding period of 1953.

Fire losses in Canada are estimated by *The Chronicle* of Montreal at $58,000,000 for the nine months ending September 30. The corresponding figure for 1953 was $49,000,000.

ACTUARIAL EDUCATION

IN his presidential address to the Institute of Actuaries, Mr. J. F. Bunford, M.A.F.I.A., manager and actuary of the National Provident Institution, said that in the middle of 1920's the great bulk of entrants to the actuarial profession came directly from school, but since the second world war some 40 per cent. to 50 per cent. of entrants had been graduates with honours degrees

in mathematics or statistics. This apparent change, he said, could well be illusory—probably the recruits to the profession were the same cross-section of young men as before, but emerging from a different educational pattern, with the opportunities for higher education more widely spread. Mr. Bunford praised most of the educational changes, but was critical of the early emphasis on specialisation. Competition was such, he said, that for a boy who hoped to go to a university the choice between arts and science began about the age of 15 or 16 and it was extremely difficult, having chosen one, to abandon it for the other. This, he said, militates against the broadly based education which actuaries, among other professions, recognise to be desirable.

The actuary is becoming, if he has not already become, much more than "the expert authority on rates of mortality and other details of life, fire, or accidence insurance," which a few years ago was the dictionary definition of his particular function. Mr. Bunford is anxious that he may be properly qualified to take the great opportunities which lie in different fields of industry, and it was with that aim in view that he stressed the need for the actuary, starting from a mathematical foundation, to obtain the maximum possible practical business training and experience.

BRITISH INSURANCE HISTORY

THE latest publication by W. S. Crawford, Ltd., advertising agents, of 233, High Holborn, London, W.C.1, in the series of surveys of the population and its activities, is entitled "A Study of the British Insurance Industry." This is No. 5 of the series and is rather more specialised than the previous ones. Intended for firms and people outside the insurance industry, it nevertheless makes interesting reading for insurance officials, while much of the statistical information should make an appeal to bank men. Life assurance (ordinary and industrial) and general insurance business (fire, accident, etc.), with various forms of cover are surveyed, and the growth of the British insurance industry illustrated by means of tabulated figures and graphs.

INSURANCE OF GLASSHOUSES

A SPECIAL policy for the insurance of glasshouses has been designed by the United Standard Insurance Company. It refers to the United Kingdom only and covers destruction or damage by fire, lightning, aircraft (or articles dropped therefrom), storm or tempest (including hail, snow and wind, but excluding flood, subsidence or landslips). The policy also covers loss of crops, loss of use and other consequential loss up to a fixed amount. Premiums are calculated on the full value of the glasshouse (including any heating apparatus), the normal rates being 5*s.* per cent. for damage to the structure of the glasshouse, and 2*s.* 6*d.* per cent. in respect of crops, etc. The insured is not required to bear the first part of any claim, but the policy is made subject to average. A no-claim bonus is incorporated. This is accumulative and has the effect of reducing the renewal premium by 10 per cent. after one year free of claim ; 15 per cent. after two years ; and 20 per cent. after three or more years.

Insurance Appointment

PROVIDENT MUTUAL LIFE ASSURANCE ASSOCIATION.—Mr. G. J. R. L. d'Erlanger has been appointed deputy chairman.

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